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ABSTRACT

A study was conducted to determine the role of the older worker in the American labor force, to analyze reasons behind the changing role of the older worker, and to make recommendations for employers, unions, and the government on age-neutral personnel policies responsive to the needs of an increasingly older work force. Data on the demographic, social, and economic trends expected to emerge in the 1980s revealed that factors such as inflation, changing retirement policies, and improved health care will result in increased older adult participation in the work force. Twenty-six recommendations were made in the areas of hiring and separation, pay and benefits, assessing and counseling, and training and development to ensure that policies in these areas are consonant with a working-life potential which has increased by five to ten years. In addition, thirteen recommendations including a call for expanded use of alternative work schedules, reassignment of older workers to different duties, access to further education, and expanded outplacement were made to extend employee working lives. Six recommendations were made calling for increased union and Comprehensive Employment Training Act participation in retraining, counseling, and placing older workers. (MN)

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THE FUTURE OF OLDER WORKERS IN AMERICA

New Options for an Extended Working Life

A Work in America Institute
Policy Study

Directed by Jerome M. Rosow, President
and Robert Zager, Vice President
for Policy Studies and Technical Assistance

CE 026 859

U.S. DEPARTMENT OF HEALTH,
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Social Research
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April 22, 1980

LETTER FROM THE BOARD OF DIRECTORS, WORK IN AMERICA INSTITUTE

The Work in America Institute directed this policy study at the behest of the Board of Directors. We, the members of the board, now endorse the product of the study.

The Future of Older Workers in America is timely because, with major changes in the law, in the economy, and in life expectancy, employers and other decision makers are searching for ways to respond with enlightened self-interest. Over the next 10 to 15 years our society will be trying to adjust to a population and a work force whose average age moves steadily upward. The policies recommended in this report should smooth the adjustment. Here are new, hopeful, reality-based perspectives from which to view the new situation. Many of the specific recommendations are aimed at a wide range of policies affecting older workers. In the companion casebook, *Young Programs for Older Workers,* employers and unions will discover examples of progressive programs already in place.

Background

Changing work force: Profound demographic shifts are pushing the average age of the population and of the work force upward.

Changing older people: Advances in health and medical care have lengthened the lifespan by 14 percent in recent years.

Economic forces: Inflation, energy, and productivity are likely to continue as major problems in the 1980s. The raising of the age of mandatory retirement allows people to work to 70, or beyond (in government).

Social forces: Work will continue to be central to the maintenance of self-esteem and become an increasingly important source of interpersonal satisfactions as society becomes more fragmented.

- Inflation so erodes pensions that many people will need to continue working.
- As a group, healthy older workers are as productive as others.
- The secular decline in labor-force participation of older workers is due to public and private policies, and the extension of working life will occur by the same means.

Transition from a young labor force to an older one is inevitable. The report points the way toward a transition befitting a free democratic society—one based on enlightened self-interest rather than coercion and reaction. Its recommendations, which are broad and far-reaching, are directed primarily at employers and unions, whose decisions set policies for the great majority of working people. A few recommendations are directed toward government, in the interest of integrating public and private responses.

In coming decades, American society will be stronger to the degree that our employment policies foster the highest and best use of all our human resources.

Sincerely,

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Preface

The Future of Older Workers in America is Work in America Institute's second national policy study report. The strength of the report rests not only in the quality of its ideas but equally in the Institute's standing as an independent, tripartite, not-for-profit organization. The full endorsements of our distinguished Board of Directors reflects the fact that the diverse recommendations have been examined closely and have pragmatic value.

The report has been a collaborative effort in the best sense. Differing viewpoints among contributors have been resolved by enlarging, enriching, or discarding ideas, not by compromising.

Within this context, particular contributions deserve our acknowledgment and thanks.

Thanks first of all to our National Advisory Committee, who closely studied and with unflagging enthusiasm debated the documents from which the report emerged. It must be made clear, however, that not every member of the Committee (nor of the Board of Directors) necessarily agrees with everything in this report.

We also value the contributions of the individuals who wrote discussion papers and drafts, and presented and defended them. Discussion papers were prepared by:

Michael D. Batten, on performance appraisal systems

Professor Jim Birren (University of Southern California), on the competence of older workers

Professor Michael J. Boskin (Stanford University), on labor-force participation of older workers

Professor Robert Clark (North Carolina State University), on forces affecting the age-composition of the work force

Ben Fischer, on collective bargaining and the older worker

Francis P. King (Teachers Insurance and Annuity Association of America–College Retirement Equities Fund), on pension portability

Dean Herbert E. Striner (School of Business, American University), on continuing education of older workers.

In addition, Arthur Gribbin (Johnson & Higgins) presented the findings of the 1978 Louis Harris poll on older workers and retirees, and Marc Rosenblum presented the findings of the 1977 Rosenblum/Sheppard study of older workers.

First drafts of the report were prepared by Professor Robert Clark (chapters 1-4) and David Robison (chapters 5-9). The drafts have undergone so many changes that it would be unfair to hold either writer responsible for the outcome.

Mr. Robert Zager, Vice President for Policy Studies, was an outstanding research director who guided the study and produced the final report, always listening to the varied viewpoints to achieve a genuine blending of ideas. The report reflects his high standards of objectivity and originality.

Other members of the Work in America Institute staff also made important contributions to the policy report: Joyce Derian, who coordinated the editing and production; Bea Walfish, who edited the report; Frances Harte, who designed it; and Joan White, who typeset the book; Will Plumley, who computed population projections; and Virginia Lentini, who managed logistics and so tactfully arranged all advisory committee meetings.

JEROME M. ROSOW
President
Work in America Institute, Inc.

Executive Summary

Executive Summary

For several decades now, it has been considered part of the American way of life for people to work until they are about 65 and then to retire on Social Security benefits, a company pension, and, perhaps, investments. A number of developments suggest that these expectations may be changing and that the entire question of retirement is now in a state of flux.

- Because of declining birth and death rates, the U.S. population is "getting older"—that is, a greater proportion of the population will soon be in the group that is now considered to be of retirement age, and a smaller proportion in the group that is considered to be of prime working age.
- The health of older people is better today than it used to be. Older people are now capable of working many more years and often are eager to do so.
- Family situations have changed. Sixty-five-year-olds, once content to retire and surround themselves with children and grandchildren, have had to adjust to separation from sons and daughters who often settle in distant cities. With the loosening of traditional family ties, older workers are less inclined to retire and give up the social aspects of their jobs.
- Retired people are finding it difficult to cope with inflation. Although Social Security benefits are linked to the cost of living, most other annuities are not. For many retirees, continuing to work may be the only solution to financial problems.
- Organizations are beginning to recognize that older workers provide a vast repository of experience and know-how which they can ill afford to lose at a time of lagging productivity.
- Laws and company pension policies have given older workers a variety of choices about when to retire. Federal law has raised from 65 to 70

the age at which an employer may require retirement, but it also provides Social Security benefits at age 62 for those who wish to retire early. It has been standard practice for most companies to begin pension payments at age 65, but many have encouraged early retirement.

Although, for the most part, workers are continuing to take advantage of the opportunity to leave the work force at age 65 or earlier, it is clear that the option of an extended working life is becoming increasingly available and desirable. The tug of war between the forces that encourage early retirement and those that argue for extended working life demand a new look at the nation's older workers. How many are there? How many will there be 10, 20, or 30 years from now? What are they like? What do they want out of life? Can their hopes and expectations be fulfilled—by themselves, by their employers, by society? Can they and their employers indeed profit by an extended working life? What kinds of constructive responses should be made by employers, unions, and government to the changing situation of older workers?

In response to these questions, the Work in America Institute embarked in 1979 on an eighteen-month policy study, "The Future of Older Workers in America." Assisted by a distinguished advisory panel, the Institute explored demographic forecasts and research on the capabilities of older workers, examined the phenomenon of early retirement, and offered a series of recommendations for action by government, unions, and employers to improve the productivity and quality of working life of those who choose to work beyond the traditional retirement age.

The study focused on the demographic, social, and economic trends expected to emerge in the 1980s. These changes will be even more pronounced in later decades, but no one's crystal ball is clear enough to plan in any detail that far ahead, nor would the development of a "master plan" be useful. We believe that responses to change will take place gradually, that different firms will begin at different times to examine their policies toward older workers, and that each will design and carry out new policies at its own pace. We believe that government, too, will take new initiatives gradually. This study, then, was designed to summarize existing knowledge about older workers, identify the most progressive practices now in use, and make recommendations to help all sectors respond constructively to the changing preferences of older workers.

Profile of "Older Workers"

The initial task was to define the term "older worker." At what point does a person become "older"? Federal law bans discrimination on the basis of age starting at age 40. However, many of the opinions and recommendations in this report focus on people 50, 55, or older.

Data collected by the Census Bureau and the Bureau of Labor Statistics reveal a great deal about older workers. For example, in 1977, of 9.5 million men aged 55-64—all under the "normal" retirement age of 65—more than 25 percent were not working. If labor-force participation rates had held at the 1950 level, there would have been an additional million and a quarter men in this age group working today.

It is known, too, that each person ages differently—at a different pace and in different ways. It is true that aging brings on certain changes that affect working life: changes in motor facility, life outlook, and job expectations. On the other hand, recent studies show that neither intelligence nor learning capacity deteriorates until at least age 70, and continued medical progress may postpone the decline beyond age 70. Most older adults have no serious memory defects. Many employers attest, in fact, that older workers are as productive as younger workers, and in certain respects more so.

It should be emphasized that today's older workers differ markedly from those of previous decades: they are healthier, so that age 50 today corresponds to age 40 or 45 in 1970; they began working later than their predecessors, so the extension of work life may not mean an actual lengthening of career; and though the average level of formal education of older workers several decades ago was far below that of younger employees, the gap has been closing and will close even further in the 1980s.

With the marked decline in death rates, the potential length of productive working life has increased greatly. Yet people have been ending their working careers earlier and earlier, some voluntarily, some under duress. Many wish they had not. Many of those still at work say they would like to, or will have to, continue working beyond age 65.

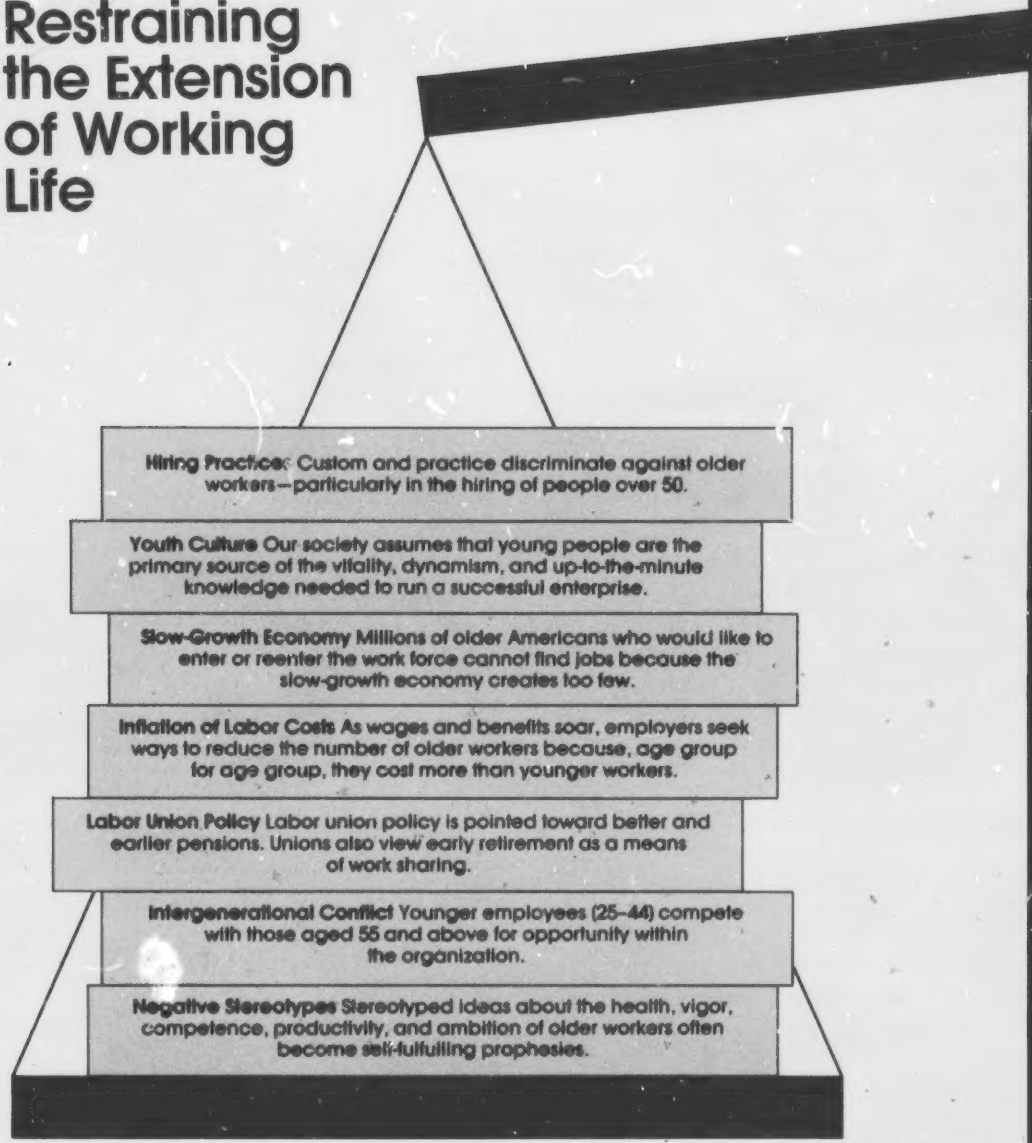
The Trend toward Early Retirement

A basic aim of this study has been to analyze the reasons that more and more older people have left the work force in recent decades, not merely because this phenomenon has puzzled observers but also because public policy decisions depend on finding out why they have left. Different consequences follow, for example, if early retirement provisions or Social Security changes have induced people to shorten their careers than if other forces, such as changed health or life expectancy, have been involved.

The examination of a number of key factors revealed:

- Social Security coverage rose from 64.5 percent of all U.S. workers in 1950 to 90 percent in 1975, and the size of monthly benefits rose almost tenfold (especially due to cost-of-living indexing). The proportion of people 55 to 64 years old who were working declined sharply beginning in the early 1960s, when those aged 62-64 became eligible for Social Security benefits.
- The earnings test—under which Social Security benefits are re-

Forces Restraining the Extension of Working Life



Hiring Practices Custom and practice discriminate against older workers—particularly in the hiring of people over 50.

Youth Culture Our society assumes that young people are the primary source of the vitality, dynamism, and up-to-the-minute knowledge needed to run a successful enterprise.

Slow-Growth Economy Millions of older Americans who would like to enter or reenter the work force cannot find jobs because the slow-growth economy creates too few.

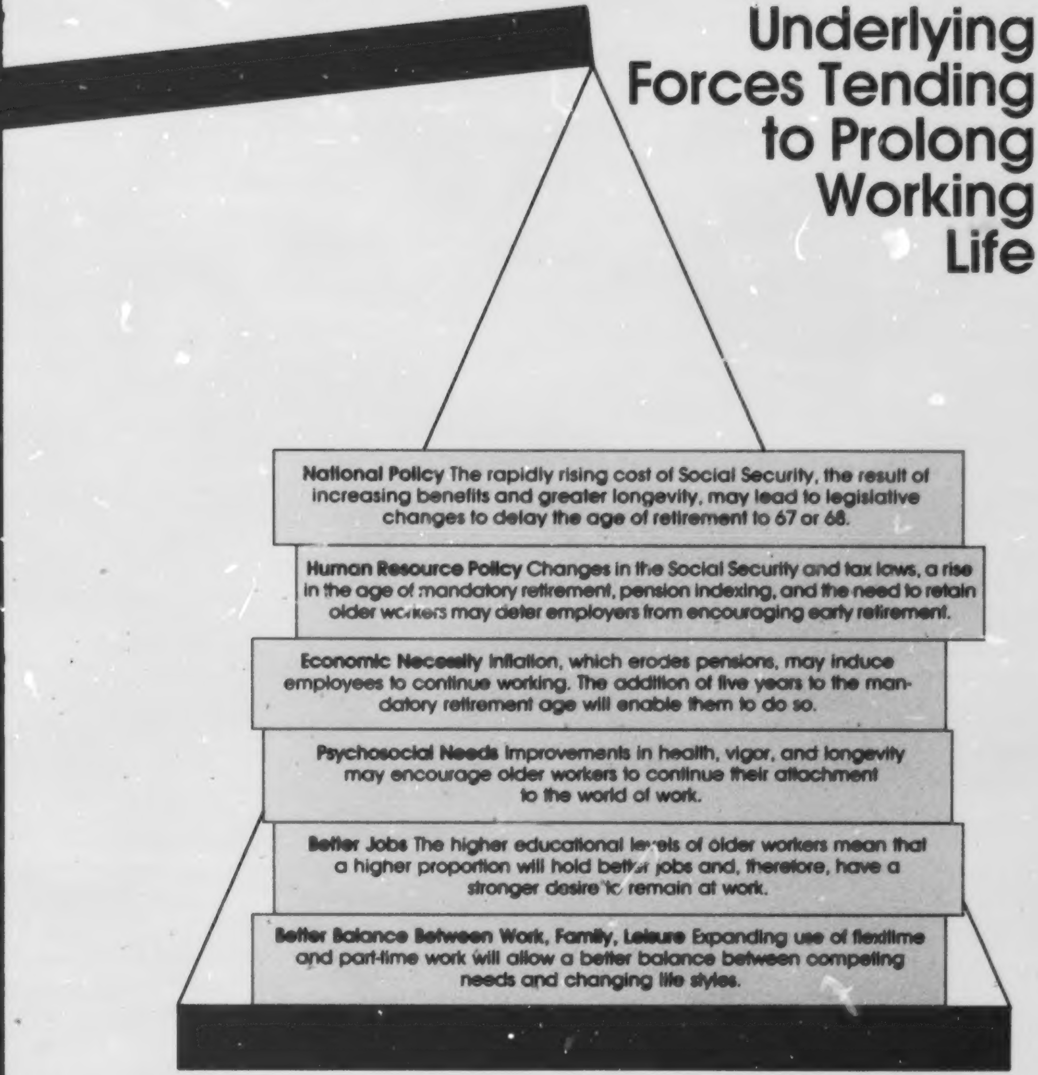
Inflation of Labor Costs As wages and benefits soar, employers seek ways to reduce the number of older workers because, age group for age group, they cost more than younger workers.

Labor Union Policy Labor union policy is pointed toward better and earlier pensions. Unions also view early retirement as a means of work sharing.

Intergenerational Conflict Younger employees (25–44) compete with those aged 55 and above for opportunity within the organization.

Negative Stereotypes Stereotyped ideas about the health, vigor, competence, productivity, and ambition of older workers often become self-fulfilling prophesies.

Underlying Forces Tending to Prolong Working Life



National Policy The rapidly rising cost of Social Security, the result of increasing benefits and greater longevity, may lead to legislative changes to delay the age of retirement to 67 or 68.

Human Resource Policy Changes in the Social Security and tax laws, a rise in the age of mandatory retirement, pension indexing, and the need to retain older workers may deter employers from encouraging early retirement.

Economic Necessity Inflation, which erodes pensions, may induce employees to continue working. The addition of five years to the mandatory retirement age will enable them to do so.

Psychosocial Needs Improvements in health, vigor, and longevity may encourage older workers to continue their attachment to the world of work.

Better Jobs The higher educational levels of older workers mean that a higher proportion will hold better jobs and, therefore, have a stronger desire to remain at work.

Better Balance Between Work, Family, Leisure Expanding use of flextime and part-time work will allow a better balance between competing needs and changing life styles.

duced if one earns money—is widely believed to have caused older people to stop working, but it may have encouraged them to work part time rather than to retire.

- Other factors that have encouraged older people to stop working include a liberalization of disability benefits under Social Security; the coverage of more people by private pensions, from 22 percent of the labor force in 1950 to 46 percent in 1975; retirement and early retirement programs; poor health (although the health and life expectancy of older people have increased markedly); the shift in population from farming to industry; the competition from greater numbers of female and younger workers; and the steady increase in per-capita wealth before the mid-1970s.

The Trend Begins to Slow

Mostly because of these factors, the Bureau of Labor Statistics has projected a continued decline in the proportion of older people who stay on the job. However, a number of forces are emerging that are slowing or reversing this decline and which tend to encourage older people to extend their work lives.

- The rapidly rising cost of Social Security may lead to raising the retirement age, taxing benefits, or reducing the protection against inflation.
- Raising from 65 to 70 the age at which a firm may force an employee to retire has inevitably led more people to remain at work.
- Many employers have felt the need to retain older workers to take advantage of their experience. A worker at age 50 has the potential for 20 more years of productive work.
- Inflation so erodes pensions that many older people continue working as an economic necessity.
- Continued good health has convinced many older people that they do not want to retire.
- The higher education level of older workers means that more of them have interesting work; therefore they have a stronger desire to stay on the job.
- Greater use of flexible hours and part-time work makes jobs more attractive to older people.

Resistance to the Extension of Working Life

Other factors continue to discourage the extension of working life by older people:

- Unions and their members want "30 and out" pensions, which allow employees to retire after working 30 years.
- Work sharing is the union's partial answer to unemployment, and retirement is preferred to the layoff of younger workers.

- Employers continue to prefer a "younger" work force, because they consider it to be better and cheaper.
- Employees in the prime age group (25-44) will create great pressures to continue retirements to keep the channels of promotion open.

The Work in America Institute believes that the Bureau of Labor Statistics may be seriously underestimating the labor-force participation of older Americans in the decade ahead. However, since the impact of the opposing forces cannot be measured in advance, it is recommended that planning for the 1980s give equal weight to the BLS projection that labor-force participation by older people will decline and to the possibility that it will plateau or rise.

Both employers and older workers are at a critical fork in the road. The aging of the labor force, runaway inflation, and many other pressing economic and social issues have brought into question the early retirement trends of the past two decades, signaling the necessity for more sensitivity to the needs of older workers. Yet any movement to extend working life will be uneven and somewhat retarded by custom and practice.

Standing at this crossroads and uncertain of what the future holds, policy makers in major American institutions are looking for guidance. Work in America Institute has responded with two documents, the products of the Institute's policy study. The first is a casebook, entitled *Young Programs for Older Workers,* which includes about 70 examples of innovative or unique programs designed to accommodate the changing age mix of the work force. These are practical instances of what can and does work. The second is this policy report, *The Future of Older Workers in America,* which focuses on the 1980s.

This report primarily aims to advise employers, because they have the broadest range of decisions to make. However, it also recommends government action and includes ideas that should be useful to union leaders.

The *underlying principles* of the report are as follows:

- Extension of working life is socially and, in many cases, individually desirable, but it should come about by choice and not by coercion.
- The value of an individual worker to the employer can only be judged on the worker's merits, not by his or her chronological age.
- A healthy employee at age 50 should be regarded as having 20 potentially productive working years ahead.
- It is in the employer's self-interest to sustain the motivation and productivity of any employee who continues working beyond the normal age of retirement.

These principles lead to three *broad recommendations:*

- An older worker should be offered opportunities as attractive as those offered to any other worker of similar competence, vigor, and ambition.

- Age neutrality should be designed into the critical personnel policies: hiring and separation; pay and benefits; performance appraisal, career counseling, and preretirement counseling; and training and development. Age-neutral policies will assure that the older person who elects to continue working will have access to career opportunities consistent with his or her aspirations, abilities, and potential. Most important, decisions to increase or decrease the size of the work force will be guided by the appraisal of individual performance and worth and not by the assumption that younger workers are, ipso facto, more productive or cost effective than older ones.
- Many new options for extended working life, ranging from redesign of work schedules to preparation for second careers, have been tested in practice and should be developed much further. These options make the older employee more valuable to the employer and the job more desirable to the employee.

The Future of Older Workers in America is divided into three parts:

Part I, "Older Workers: Present Facts, Future Trends," including chapters 1 through 4, describes the social, economic, and demographic forces that have shaped the issues.

Part II, "Age-Neutral Personnel Policies for a Changing Work Force," including chapters 5 through 9, focuses on what can be done to make personnel policies age neutral and responsive to the changing work force.

Part III, "The Role of Unions and Government" including chapters 10 and 11, examines the implications of extended working life for government and unions.

Chapter 1, *Older Workers: How Good Are They*, asks what is meant by "older workers" and, laying aside stereotypes, what capabilities an employer can expect to find in them.

Chapter 2, *Older Workers: How Many Will There Be*, discusses the official forecasts of how many older people will be in the work force during the 1980s.

Chapter 3, *Why Fewer Older People Work*, examines the forces behind the tendency of people to leave the work force earlier and earlier.

Chapter 4, *Will Older People Continue to Leave Their Jobs*, argues that the official forecasts should be accepted with caution. The trend toward earlier retirement may end, or even reverse before the 1980s are over because there are strong forces favoring the extension of working life.

Chapter 5, *Hiring and Separation*, moves into the area of personnel policy and looks at hiring and separation, including the use of early retirement as a means of controlling the size of the work force.

Chapter 6, *Pay and Benefits*, discusses the issues of salary, pensions, and other fringe benefits and examines thrift and savings plans as a hedge against inflation.

Chapter 7, *Assessing and Counseling,* shows that performance appraisal, career development planning, and preretirement planning are and should be applicable to employees of all ages.

Chapter 8, *Training and Development,* considers age-neutral training and development programs, including retraining, special training, continuing education, degree programs, and in-service updating and upgrading of skills.

Chapter 9, *New Options for Extended Working Life,* proposes 11 new options to make extended working life attractive to workers and employers alike: redesign of work schedules, redesign of jobs, transfer and assignment, reassignment with lesser responsibilities, work-education combinations, part-time work, phased retirement, recall of annuitants, second careers, small business opportunities, and outplacement.

Chapter 10, *Unions and the Extension of Working Life,* predicts a time lag in unions' responses to the prospect of extended working life, because members are still predominantly concerned with sharing the work and with earlier and better pensions.

Chapter 11, *Greater Mobility for Older Workers,* shows how the mobility of older workers can be increased to the benefit of the whole economy by helping those who are out of the labor force get back in and by helping qualified applicants acquire new marketable skills.

The 46 specific recommendations contained in chapters 5 through 11 have been extracted and grouped under chapter headings in the pages that follow. Chapters 1 through 4, which discuss present facts and future trends, contain no recommendations.

Recommendations

Hiring and Separation

1 Firms should review their personnel policies to ensure that they are consonant with a working-life potential which has been extended by five to ten years. Because of the extension of working life, hiring decisions about people 50 and over should be made in terms of personnel practices which formerly applied to people under age 45. *(Page 67)*

2 Personnel managers and company officials should consider the following recommendations for more effective hiring of older workers:

a. Organizations should confront directly the issue of whether older applicants can do the job. *(Page 69)*

b. Management should be sensitized to the issues of age and employment in hiring and retention. Top-line management should become better acquainted with the needs of present older workers, their abilities and limitations, and how they fit into the company's work force. Where possible, a broad and equitable age distribution across company skill lines is best. *(Page 69)*

c. Employers should try to design a variety of jobs and work arrangements for older people. Full-time jobs that are too strenuous for older workers can often be brought within the capability of older job applicants by means of different kinds of job structures and work schedules —such as part-time work, job sharing, flexible time arrangements, or flexitime. *(Page 69)*

d. Firms should seek to increase the number of part-time jobs in their work force. *(Page 69)*

e. Companies should not be afraid *not* to hire the older worker. Fair labor standards and civil rights laws allow employers to refuse to hire a worker, provided there is good cause. *(Page 70)*

f. Employers should bear in mind that outside employment agencies specializing in the placement of older workers can help them solve hiring problems. *(Page 70)*

3 Better planning and earlier anticipation of needs should be adopted to enable employers to avoid terminating older workers. *(Page 70)*

4 Management should inform supervisors that age is not an acceptable criterion for layoffs; the only dependable basis is performance appraisal, based on sound information. *(Page 71)*

5 Layoffs and terminations should be governed by the following policies:

a. Separation should be related clearly to performance, job descriptions, performance criteria, and agreed-upon procedures for rating and ranking employees. *(Page 72)*

b. Retirement incentives, such as bonuses, absorption of discounts for age, severance payments, and extended notice, should combine economic attraction and genuine choice. *(Page 72)*

c. Age discrimination should be barred from the criteria, to avoid legal or class-action suits and to ensure effective corporate social responsibility. *(Page 72)*

d. Layoffs should be avoided to the maximum extent by advance planning and greater reliance upon normal attrition linked to an employment freeze. *(Page 72)*

e. Work sharing, in combination with unemployment insurance, should be an alternative to cyclical or seasonal layoffs. *(Page 72)*

f. Outplacement services should become a final alternative to outright dismissal and should be extended to all occupational groups and all age groups. *(Page 72)*

6 In the light of changing demographics, the aging of the work force, the decline in mortality rates, and the increased longevity and vigor of people, employers should take a hard new look at the cost and benefits of early retirement plans. Sophisticated analysis may disclose that the attractions of early retirement are outweighed by its costs. *(Page 75)*

7 We oppose proposals to raise the Social Security age to 67, because they would adversely affect the early retirement option and could also harm normal retirement programs by adding two years of bridging costs. They would force many older unemployed people to apply for welfare payments and would break the promise of retirement at age 65. *(Page 78)*

Pay and Benefits

8 Companies should reexamine pay and benefit policies in relation to the aging work force and the probable extension of working life, to ensure that senior employees are motivated to sustain productivity throughout their careers. *(Page 81)*

9 It is recommended that employers accept the operating principle that if employees stay past age 65, they should have the same benefits, such as health coverage, vacations, sick leave, and personal leave that other employees have. *(Page 83)*

10 Efforts should be made to devise more flexible packages of benefits, compatible with law, company practice, and employee needs. It may also be desirable to design varying levels of benefits for those who choose part-time work after 65, since many work primarily for income and personal reasons, rather than for fringe benefits. *(Page 83)*

11 We recommend that Congress create added incentives to foster employee thrift and savings plans by granting tax exemption to employee contributions. With national savings rates at an all-time low, the United States needs tax policies which create new incentives to save. *(Page 86)*

12 We recommend the amendment of existing legislation or a ruling from the Treasury which would enable a worker to transfer a vested thrift

or savings account to an individual retirement account, thus creating a modest form of pension portability without changing pension laws. *(Page 86)*

Assessing and Counseling

13 Performance appraisal should receive critical and effective priority in personnel management, not only because of the aging of the work force and the extension of working life, but because of union pressures, the disclosure rights granted by the Freedom of Information Act, the growing emphasis on communication and participation in employee relations, demands for equal employment opportunity, and the endemic reluctance of managers to evaluate subordinates. *(Page 88)*

14 Effective performance evaluation systems should incorporate certain universal features:

a. Appraisals should take place on a regular schedule laid down by top management. *(Page 89)*

b. Executives themselves should be judged by their ability to appraise and to devote sufficient energy to doing it well. *(Page 89)*

c. Appraisals should be reciprocal: The subordinate should know the results and also take part in setting the goals and objectives by which he or she will be judged next time. *(Page 89)*

d. Most important of all, employees should understand the system and consider it reasonable and fair in operation. *(Page 89)*

15 Performance appraisal systems should be age neutral and three-dimensional. One dimension measures what has been accomplished in the past; another measures the worker's job satisfaction, skills, and work-related aspirations; the third sets plans, benchmarks, and expected results by which to measure future performance. *(Page 90)*

16 Companies should offer a fuller range of career counseling and career development planning, possibly including the use of outside professional services. Such counseling should encourage earlier recognition of career problems in order to allow less painful choices. It should emphasize realistic alternatives within the firm as well as external options, but should avoid the sense of crisis or fear of premature dismissal. *(Page 91)*

17 We recommend that employers offer preretirement programs that include the following features:

a. Employers should provide a comprehensive treatment of retirement financial planning, involving both group sessions and individual discussions. *(Page 94)*

b. Individual counseling sessions should focus on the needs and interests of each employee with respect to the economic, work, health, housing, and social aspects of retirement living. *(Page 94)*

c. Preretirement counseling should begin many years in advance of actual retirement. *(Page 94)*

d. Companies should employ retirement counselors who are skilled in evaluating employee attitudes and needs, showing employees how to conduct financial analyses, analyzing each worker's public and private penion benefits, and providing overall counseling about alternative courses of action. *(Page 94)*

e. Planning should emphasize active measures to turn planning into reality, including the development of new career paths, second careers, or changes of work plans or duties within the organization. *(Page 94)*

Training and Development

18 Since developmental programs will have to stretch over a greater age span, concepts of training and development will have to become more elastic. We recommend, therefore, that more consideration be given to lateral assignments, job redesign, ease of shifting between functional specialties, and freer movement of employees out of the company to gain experience or training (perhaps in a different field) and then back to the company. *(Page 98)*

19 Companies should develop a planning perspective that will enable them to view their employees as human resources whose regular assessment, enrichment, renewal, and modernization will benefit all concerned. As part of that perspective, the following measures should be taken:

a. Employers, before hiring a work force for a new plant or office, should first seek to train current employees, including older workers who wish to shift occupational skills, careers, or assignments. *(Page 98)*

b. Training and retraining opportunities should be posted, advertised, and marketed within the company to the same degree as job openings in order to attract people of all ages. All managers should know about these opportunities and be required to encourage subordinates to consider them seriously. *(Page 98)*

c. The ability to recruit existing workers for new jobs within the firm, in preference to outside hiring, should be made a criterion of managerial performance. *(Page 99)*

d. In order to make retraining and career development applicable to all, employers should develop more objective attitudes concerning the adaptability of people—including older workers. *(Page 99)*

20 As employees climb the ladder of professional or managerial posts, training should keep pace with their needs. *(Page 99)*

21 To improve off-site, continuing education, training, tuition aid, special studies, and degree programs, the business community should hold out a hand to the educational establishment. The offer should come from business to education, not vice versa, because the educational establishment, as a rule, has an imperfect grasp of the changing needs and occupational mix within enterprises. *(Page 100)*

22 Where a group of employers in a single community or a single trade association share a training need, they should consider developing specialized courses and programs collectively. *(Page 100)*

23 Employers should consider lending specialists to a local educational institution, a procedure that may be more cost effective than setting up an in-house program. Such loans might serve as transitional assignments for senior personnel who incline toward the academic field as a second career. Alternatively, employees with special knowledge might be offered the opportunity to join the faculty of a local college or university in order to develop appropriate courses and present those courses to the firm. *(Page 100)*

24 Companies should provide special guest lecturers to enrich the curriculum at professional schools. Or they could invite faculty members to work at the firm long enough to acquire the knowledge with which to develop a curriculum for later use by employees. *(Page 100)*

25 In-house management training programs should recognize that older workers have different learning patterns than younger workers. *(Page 101)*

26 Two measures should be taken to keep older workers abreast of new knowledge in their fields: (1) top management should intervene and make it known that training of older employees must not be sacrificed to current pressures, and (2) more concrete benefits and incentives should be offered to older employees for training, self-development, and self-renewal. *(Page 102)*

New Options for Extended Working Life

27 The spread of alternative work schedules is still quite modest. On the other hand, older workers are known to be strongly in favor of them. Employers should take advantage of these low-cost high-potential-payout programs, which will also help them tap into the changing labor market of the 1980s. *(Page 107)*

28 Jobs should be redesigned to reduce undue stress, whether physical or mental, which often impairs the performance of older workers. The firm which ignores such stress may be losing prematurely many of its best employees, incurring excessive costs for workmen's compensation, or risking lowered performance by older workers. *(Page 108)*

29 More attention should be focused on redesigning middle-management, professional, and technical jobs, many of which are poorly designed. Planning, coordinating, and facilitating duties should receive greater emphasis, while less demanding tasks and decisions should be assigned to lower levels. Redesigning is particularly important when senior people occupy these jobs. *(Page 108)*

30 When employers are hiring for a new site, they should seek a balance between older and younger employees. Older employees are demonstrably more stable, and a leavening of them will offset the greater tendency of young people to change jobs. *(Page 109)*

31 Management should adopt the policy of reassignment of older workers to different duties. This policy can raise older employees' productivity and give them a new lease on life by utilizing their long experience more fully and enabling them to make a more valued contribution. *(Page 110)*

32 Employers should consider allowing workers to take a voluntary reduction of responsibility and pay, provided that the negative connotations of demotion can be avoided. A reassignment should decrease the difficulty and responsibility of the job without implying that the change was either punitive or the individual's fault. *(Page 111)*

33 Employers should develop arrangements through which employees can gain further education or training, while still keeping their status with the firm. The outstanding issue in expanding these arrangements,

however, is how to finance full-time training or education for people who have substantial financial responsibilities. A number of alternative schemes are possible. *(Page 111)*

34 We recommend that the unemployment insurance law be amended so that people who are unemployed but attending full-time educational institutions for periods up to one year are eligible for benefits, provided they are not less than 30 years of age and have contributed to the unemployment insurance fund for not less than five full years. The program should be subject to proper certification procedures, with responsibility to be assumed by the educational institution to show that the course taken by a client will produce marketable skills. *(Page 112)*

35 We recommend that employers make part-time work more attractive by prorating benefits in proportion to full-time work. The goal should be benefits that meet management's reasonable cost objectives and at the same time give part-time workers fair treatment. *(Page 113)*

36 We recommend that employers provide options for phased retirement as a means of giving employees a chance to sample the leisure time and the new activities of retired life before actually taking the plunge. This offers a reasonable transition from full-time work to retirement. *(Page 115)*

37 Companies should increase the flexibility of managers to recall annuitants on a consulting or temporary basis. For many seasonal demands—preparing annual reports or budgets, peak sales loads, inventory taking, production peaks—it makes sense to use former employees who know the ropes rather than to look outside. *(Page 116)*

38 Employers should assist employees who want to start a second career or their own business. In many cases, it may be cheaper—and better for morale—for the firm to provide such assistance than to continue paying the salary of an employee who wants to leave. *(Page 118)*

39 We recommend that, in dealing with surplus executives, more use be made of outplacement—assisting them to find suitable jobs with other employers. This is a successful and growing technique for recycling talent. The same techniques could and should be used with other occupational groups, since there is no inherent reason why the company owes more loyalty to one group than to another. *(Page 118)*

Unions and the Extension of Working Life

40 Union leadership should take soundings of workers' current attitudes toward retirement goals in the light of rapidly changing economic circumstances. *(Page 124)*

Greater Mobility for Older Workers

41 The role of CETA in retraining, counseling, and placing older workers should be expanded by making its help available to millions of potential clients, including pensioners, who are now excluded because they do not qualify under the economic limitations. The cost of serving them would probably be less than the cost of excluding them, because getting older people into jobs would bolster tax revenues and the Social Security fund. *(Page 129)*

42 The federal government should sponsor detailed studies of age distributions by occupational groupings, with an evaluation of the education levels of the workers. With such information, on a trend basis, there is a better possibility for determining the education and training needs for those older workers who want to prepare themselves for jobs in industries with increasing job opportunities. *(Page 132)*

43 Government and employers should help employees gain access to reliable advice about career opportunities and requirements, about where to get the necessary education to take advantage of these opportunities, and about their own readiness for education. *(Page 133)*

44 The current CETA program should be recast so that all public employment programs, other than the strictly countercyclical ones, have a significant training and placement component. Special programs for retired people should also be included. *(Page 133)*

45 We recommend that the appropriate congressional committees review the West European experience with large-scale training as a social investment. Congress should consider providing a sufficient period of full-time or part-time training and education to all individuals who can meet appropriate qualifications, except workers who cannot be reeducated for a desired change of employment without undue time and expense. The congressional review should be carried out in the light of CETA training efforts and, indeed, might be included in any reconsideration or renewal of CETA in 1981. *(Page 135)*

Part I

Older Workers: Present Facts, Future Trends

1 / Older Workers: How Good Are They?

The population of the United States is getting older. The number of people 65 and older will exceed 31 million by the year 2000, compared to fewer than 24 million in 1978. At the same time, powerful forces are at work that may encourage people to stay on the job well past what is now considered the normal retirement age. These trends will result in a vastly increased proportion of older people in the work force. The stark facts virtually mandate a closer look at older workers.

What is an older worker? Federal antidiscrimination law uses age 40 as the dividing line between younger and older workers. Most of our discussion and recommendations are pointed toward workers 50 and older. However, 40 does have a certain validity as a turning-point age in employment; after age 40, finding a new job suddenly becomes much more difficult. On the other hand, the Bureau of Labor Statistics (BLS) considers an older worker one aged 55 or above. It describes, quite justly, those between 25 and 54 as of "prime age."

Stereotyped thinking about older workers can prevent employers, unions, and government from taking sensible, practical approaches to dealing with them. For instance, most of us think of older workers as people who do not perform very well at work, who have more than their share of on-the-job accidents, who look forward to retirement with eagerness.

However, older people do not conform to a type. People in their sixties may be as different from octogenarians as teenagers are from people in their thirties.

Furthermore, if the stereotype once had any validity, vast changes in our society have made it utterly useless as a guide for employment policies.

Americans are living longer than ever. In the past decade, the death rate among people over 65 has dropped 14 percent. At age 65, average life expectancy is another 15 years; at 75, it is another ten years. Whereas in the year 1900, average life expectancy at birth was 45, it is now over 70. The percentage and number of people who live to 80 and beyond is growing.

A distinction has been drawn between the "young old" and the "old old"—between those in their sixties and early seventies, and those in their eighties and over. According to Dr. Robert N. Butler, director of the National Institute on Aging, "It is almost as if there are two groups of aged: those who are healthy, vigorous, and contributing, and those who, as a consequence of aging, have protracted economic and emotional dependencies; they tend to be 75, 80, and above." [1]

Studies of health and welfare show the increasing diversity of aging Americans. These studies have begun to fill in gaps of knowledge about aging that have caused older people to be misunderstood and stereotyped. According to Dr. Robert Butler, "The aged are a more diverse, heterogeneous group than any other. We become more complicated as we grow older."

Dr. Rubin Andres, clinical director of the National Institute on Aging, emphasized that individual differences and variables in individual lives result in different patterns of aging.[2]

The National Institute on Aging has tracked some 1,100 men for varying periods over more than 20 years in Baltimore and has recently added some 200 women to the study. The findings confirm some traditional beliefs about aging: that muscles lose mass over time, that the cardiovascular system becomes less efficient, and that the senses are less acute. But the study also dispels the belief that physical and mental health start to drop off sharply at any given age. Although most of the men studied began to show some decline in mental processes after age 70, many showed no substantial mental decline at all.

"What is the relevance of the age of an individual to his or her ability to continue work?" That is the real issue, as posed by Dr. Harold L. Sheppard in *The Graying of Working America.* "The research findings on this question," he says, "point to the fallacy of treating total age groups in terms of stereotypes. These findings challenge the use of averages . . . in making decisions about specific individuals concerning their capacity to perform in specific job tasks, and . . . in making decisions as to when—at what age—to retire such individuals." [3]

According to the outmoded stereotypes, some of the alleged disadvantages of older workers are:

- Their attitudes solidify—they're "stubborn."
- Things they learned in the past interfere with new learning.
- They have learned how to get by with less effort.
- They have less education.
- They adjust more slowly.

- They are slow doers and slow thinkers.

These allegations may apply to some individual older workers. But when they do apply, they are often balanced by more favorable characteristics:

- Older people have fewer absences than younger workers.
- They have fewer on-the-job accidents.
- They are more satisfied with their jobs.
- They have less stress on the job than younger workers.
- They show lower rates of admission to psychiatric facilities.
- They use psychotropic drugs less often.

Younger workers are probably more flexible, quicker to learn, more willing to try new methods, more willing to take risks than older workers. Studies suggest, however, that older workers can perform just as well as younger ones once they master new information.

A recent Department of Health, Education, and Welfare (HEW) survey announces several findings that overturn common beliefs about older people:

1. Data suggest that the intelligence of most individuals remains constant until at least age 70. When decline does occur, it is usually the effect of organic change in a person nearing death.

2. There is little evidence to suggest a great deal of change in learning capacity over the major part of the life span. Although learning in a slightly slower fashion than do younger ones, older adults can learn effectively . . . . Those who are deterred from attempting to continue learning are unstimulated, dull, and frustrated.

3. Most recent research findings indicate little or no decline with age in the capacity to store short-term memory . . . . In dealing with everyday information, it is clear that the majority of older adults do not have serious memory defects.

4. For most people, life satisfaction does not decline markedly with age, and ability to function and adapt does not seem related to age.[4]

Moreover, while older people in general resist change more than the young, they are far from incapable of changing. They have had to become adaptable—in part because they have lived through so much social and technological change.

According to Dr. Sheppard, "Rarely will chronological age alone reliably measure the physical or mental development of an individual. Generalities about the capabilities of specific age groups—the root of stereotypes—should therefore be viewed with skepticism, particularly when these generalities refer to work-related abilities."

Within a work group, a balance of ages is desirable to temper the energy and risk taking of younger people with the maturity, prudence, and experience of older people. Particularly during business downturns, the experience and caution of long-service employees may be useful.

NOTES

1. Robert N. Butler, *Why Survive? Being Old in America* (New York: Harper & Row, 1975).

2. National Institute on Aging. *Changes . . . Research on Aging and the Aged.* Publication No. NIH 7885 (Washington, D.C.: U.S. Government Printing Office, 1978).

3. Harold L. Sheppard and Sara E. Rix, *The Graying of Working America: The Coming Crisis in Retirement-Age Policy* (New York: Free Press, 1977).

4. U.S. Department of Health, Education, and Welfare, Health Care Financing Administration, Health Standards and Quality Bureau, *Working with Older People: A Guide to Practice*, Vol. 1, *The Knowledge Base* (Washington, D.C.: U.S. Government Printing Office, 1978).

2 / Older Workers: How Many Will There Be?

Forecasting how many older people will be working in the 1980s depends on two estimates: How many older Americans will be alive? What proportion of them will be working?

Although all population forecasting is risky, there is less risk in predicting the number of older people in the population in the 1980s because they are already alive. Predicting the percentage of older people who will work is less certain.

Because birth and death rates have declined, the U.S. population is now significantly older than at any period in history. The forecast is that these trends will continue and that the number and proportion of older people will increase over the next 20 years. The trend will be even more dramatic in the early part of the twenty-first century.

Table 1 illustrates the projected size and age distribution of the U.S. population to the year 2000, assuming a replacement birth rate, a minor decrease in the death rate, and an annual net immigration of 400,000.

The Census Bureau's assumption that the death rate of people 65 and older will decrease only slightly may not be realistic. In fact, it has fallen 14 percent since 1968. If this trend continues, even if the decrease is not as much as 14 percent, the numbers and proportion of older people during the next 20 years will increase more than the Census Bureau predicts.

According to the Census Bureau, the population aged 65 and over will increase steadily from 24 million in 1978 to more than 29 million by 1990. The 55-64 group will rise from 20.7 million in 1978 to 21.7 million in 1985, then settle back to 20.8 million in 1990. By contrast, the number of potential new entrants into the labor force, as measured by the population aged 18-24, is expected to decline from 29 million to 25 million.

These trends are expected to produce important changes in the age

Table 1
Population Projections (in millions)

	1978	1980	1985	1990	1995	2000
0-17	63.3	62.0	62.3	64.8	68.4	69.0
18-24	29.0	29.5	27.8	25.1	23.2	24.7
25-54	81.5	84.6	93.8	103.0	109.2	111.6
55-64	20.7	21.2	21.7	20.8	20.6	23.3
65 +	23.9	24.9	27.3	29.8	31.4	31.8
Total	218.4	222.2	232.9	243.5	252.8	260.4
Median age	29.7	30.2	31.5	32.8	34.2	35.5

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 704, "Projections of the Population of the United States: 1977 to 2050," U.S. Government Printing Office, (Washington, D.C.: 1977).

distribution of the population. If one considers the population aged 18-64 as equivalent to the working-age population, then the portion aged 55-64 will increase for a few years, then decline slightly to 13.9 percent of the working-age population. And the portion aged 65 and over will increase from slightly over 18 percent of the working-age population to about 29 percent by 1990. But the proportion of youths 18-24 to the entire working population would drop sharply—from 22.1 percent to 16.9 percent.

The Work Force of the 1980s

The Bureau of Labor Statistics regularly projects the composition of the U.S. work force, with the best available information and techniques but with varying luck.

The figures for predicted and actual changes "do not tell a very sanguine story about our ability to foresee major changes in the labor force. The most important development in the period covered, that is, the massive movement of women into the work force, was grossly underestimated in nearly every forecast," says economist Richard B. Freeman. [1] The BLS did not foresee the rise in the participation of younger women in the 1960s and 1970s. Nor did BLS foresee the growth in the number of younger workers, despite its dependence on census figures. The lesson is that "it is no easy task to make good predictions of the work force of the future. Both in terms of absolute size and composition, the labor force changes dramatically in relatively short time spans—often in ways that, at least in the past, were not foreseen by standard forecasts." [2]

The most recent BLS projections are shown in the following tables. Table 2 adjusts Census Bureau projections by excluding the institutionalized population. Table 2 also concentrates on the population 16 years and over in order to conform to current definitions of the labor force. While the size of the age groups differs somewhat from those in table 1, the same basic pattern of change appears.

Table 3 shows the BLS projections of labor-force participation rates by age and sex. For the first time, BLS provided three alternative paths of labor-force growth. The intermediate projections are presented in this table, together with the high and low forecasts in parentheses. All three estimates extrapolate the historical trends of labor-force participation rates for the age groups.

BLS projects a continued decline in the rate of labor-force participation of men aged 55-64, from 74 percent to 65 percent in the period 1977-1990, and a decline for men 65 and older from 20.1 percent to 15.0 percent during the same period. Smaller declines are estimated for older women. By contrast, the labor-force participation rates of youths are projected to rise significantly: young men slightly, young women sharply.

When the projected labor-force participation rates are applied to population changes, table 4 results.

Table 2
Civilian Noninstitutional Population (in millions)

	Actual Population		Projected Population	
	1970	1977	1985	1990
16-24	29.8	35.6	33.4	30.1
25-54	70.0	78.5	92.1	101.3
55-64	18.2	20.1	21.5	20.5
65 and over	19.0	22.3	25.9	28.3
Total 16 and over	137.0	156.4	172.9	180.2
Men				
16-24	14.0	17.4	16.3	14.7
25-54	33.6	37.9	44.7	49.2
55-64	8.6	9.5	10.2	9.8
65 and over	8.1	9.2	10.6	11.5
Total 16 and over	64.3	74.0	81.9	85.3
Women				
16-24	15.8	18.2	17.1	15.4
25-54	36.4	40.6	47.4	52.1
55-64	9.6	10.6	11.3	10.7
65 and over	10.9	13.1	15.3	16.8
Total 16 and over	72.7	82.5	91.1	95.9

Source: Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

Table 3
Civilian Labor Force Participation Rates, Intermediate Growth Assumptions (high and low assumptions in parentheses)

	Actual Rates, %		Projected Rates, %			
	1970	1977	1985		1990	
Men						
16-24	69.4	74.1	76.4	(78.9-74.4)	76.1	(81.0-73.3)
25-54	95.8	94.2	93.5	(95.1-92.2)	93.1	(95.6-91.1)
55-64	83.0	74.0	68.1	(73.5-64.1)	65.0	(73.3-59.0)
65 and over	26.8	20.1	16.7	(19.7-11.9)	15.0	(18.1-9.4)
Total 16 and over	79.7	77.7	77.0	(79.4-74.7)	76.4	(80.0-73.3)
Women						
16-24	51.3	59.6	69.8	(73.2-66.2)	72.8	78.2-67.3)
25-54	50.1	58.4	68.5	(70.9-65.9)	72.4	(76.1-69.0)
55-64	43.0	41.0	40.2	(41.5-38.1)	39.8	(41.8-36.6)
65 and over	9.7	8.1	6.8	(7.8-5.9)	6.2	(7.2-4.8)
Total 16 and over	43.3	48.4	54.8	(57.1-52.4)	57.1	(60.4-53.8)
Total 16 and over	60.4	62.3	65.3	(67.7-63.0)	66.2	(69.7-63.0)

Source: Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

Table 4
Civilian Labor Force, Intermediate Growth Assumptions (in millions)

	Actual Labor Force		Projected Labor Force	
	1970	1977	1985	1990
Men				
16-24	9.7	12.9	12.5	11.2
25-54	32.2	35.7	41.8	45.8
55-64	7.1	7.0	7.0	6.4
65 and over	2.2	1.8	1.8	1.7
Total 16 and over	51.2	54.4	63.0	65.1
Women				
16-24	8.1	10.8	11.9	11.2
25-54	18.2	23.7	32.4	37.7
55-64	4.2	4.4	4.5	4.3
65 and over	1.1	1.1	1.0	1.0
Total 16 and over	31.5	40.0	49.9	54.3
Total 16 and over	82.7	97.4	113.0	119.4

Source: Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

These trends suggest that if the rates decline as projected between 1977 and 1990, the number of men 55 and over in the labor force would decline by 700,000 and the number of women aged 55 and over would decline by 200,000, while the labor force as a whole would grow from 97.4 million to 119.4 million. The proportion of workers aged 55-64 in the labor force would decline from 11.7 percent to 8.9 percent, and the proportion of workers aged 65 and over would drop from 3.0 percent to 2.4 percent, as shown in table 5. There would also be a decline in the percentage of the labor force aged 16-24, exceeding that of the other age groups.

If these assumptions hold true, growth in the labor force would be limited *entirely to the prime working ages* of 25-54. This would result from the aging of the baby-boom group, and the constancy of male and female participation rates for the prime working-age groups.

Work in America Institute believes that the BLS may be seriously underestimating the number of older people who will continue to work. The next two chapters will explain why.

Table 5
Distribution of Labor Force,
Intermediate Growth Assumptions (in percent)

	Actual Distribution		Projected Distribution	
	1970	1977	1985	1990
16-24	21.5	24.3	21.6	18.7
25-54	60.9	61.0	65.7	70.0
55-64	13.8	11.7	10.2	8.9
65 and over	3.9	3.0	2.5	2.4
Total 16 and over	100.0	100.0	100.0	100.0
Men				
16-24	11.7	13.2	11.0	9.3
25-54	38.9	36.7	37.0	38.4
55-64	8.6	7.2	6.2	5.3
65 and over	2.6	1.9	1.6	1.5
Total 16 and over	61.9	59.0	55.8	54.5
Women				
16-24	9.8	11.1	10.6	9.4
25-54	22.0	24.3	28.7	31.6
55-64	5.0	4.5	4.0	3.6
65 and over	1.3	1.1	.9	.9
Total 16 and over	38.1	41.0	44.2	45.5

Source: Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

NOTES

1. Richard B. Freeman, "The Work Force of the Future: An Overview," in *Work in America: The Decade Ahead,* edited by Clark Kerr and Jerome M. Rosow (New York: Van Nostrand Reinhold/Work in America Institute, 1979), p. 64.

2. Ibid., p. 66.

3 / Why Fewer Older People Work

The two most significant shifts in the labor force this century have been the continuing decline in the proportion of older men who work and the sharp increase in the proportion of women who work, especially in the age group 45-64. [1]

The proportion of men 65 and older in the labor force has been going down steadily since the late 1800s: from 73.9 percent in 1890 to 41.5 percent in 1940, or almost 6.5 percentage points per decade. [2] For men aged 55-64, the participation rate fluctuated around the 94 percent level between 1890 and 1930, and then dropped during the depression years to 88.7 percent in 1940.

Since 1950 the sharpest decline in participation has been that of men 65 and over; the rate fell from 45.8 percent in 1950 to 26.8 percent in 1970 (see table 6). By 1977 only one man in five over the age of 65 was in the work force. Because of the decline, one-third of a million fewer men of this age group were working in 1977 than in 1970, despite a 1.1 million increase in their total number. This remarkably persistent trend has alarmed many observers and stimulated public debate about the financing of pensions and other benefits for the elderly.

Reduced participation now seems to have spread to men aged 55-64. Around 87 percent of them worked in the 1950s; participation declined slightly during the 1960s and stood at 83 percent in 1970. Between 1970 and 1977, however, the rate dropped by nine percentage points. As table 7 shows, the number of men 55-64 in the labor force fell by 80,000, while their total population grew from 8.6 million to 9.5 million.

Historically, men aged 45-54 have been considered part of the prime-age labor force (aged 25-54); the participation rates of the prime-age group have ranged from 95 percent to 98 percent. From the end of World War II

Table 6
Civilian Population and Labor Force by Sex for Individuals 65 Years and Over (in thousands)

Year	Total in			Males in			Females in		
	Population[a]	Labor Force	% LFP[b]	Population[a]	Labor Force	% LFP[b]	Population[a]	Labor Force	% LFP[b]
1950	11,378	3,038	26.7	5,358	2,454	45.8	6,021	584	9.7
1955	13,718	3,306	24.1	6,379	2,526	39.6	7,358	780	10.6
1960	15,356	3,194	20.8	6,909	2,287	33.1	8,398	907	10.8
1965	17,461	3,108	17.8	7,638	2,131	27.9	9,760	976	10.0
1970	18,947	3,221	17.0	8,075	2,164	26.8	10,887	1,056	9.7
1971	19,294	3,145	16.3	8,192	2,089	25.5	11,126	1,057	9.5
1972	19,917	3,107	15.6	8,287	2,022	24.4	11,667	1,085	9.3
1973	20,295	2,963	14.6	8,368	1,908	22.8	11,843	1,054	8.9
1974	20,709	2,920	14.1	8,594	1,925	22.4	12,146	996	8.2
1975	21,297	2,939	13.8	8,783	1,906	21.7	12,446	1,033	8.3
1976	21,772	2,874	13.2	8,946	1,816	20.3	12,902	1,058	8.2
1977	22,214	2,910	13.1	9,179	1,845	20.1	13,148	1,065	8.1

[a] Population figures are derived from data on the size of the labor force and the labor force participation rate for each year.

[b] Labor force participation.

Source: U.S. Department of Labor, *Employment and Training Report of the President* (Washington, D.C.: U.S. Government Printing Office, 1978).

Table 7
Civilian Population and Labor Force by Sex for Individuals 55-64 Years of Age (in thousands)

Year	Total in			Males in			Females in		
	Population[a]	Labor Force	% LFP[b]	Population[a]	Labor Force	% LFP[b]	Population[a]	Labor Force	% LFP[b]
1950	13,462	7,633	56.7	6,667	5,794	86.9	6,811	1,839	27.0
1955	14,308	8,513	59.5	6,965	6,122	87.9	7,357	2,391	32.5
1960	15,412	9,386	60.9	7,373	6,400	86.8	8,027	2,986	37.2
1965	16,721	10,350	61.9	7,994	6,763	84.6	8,727	3,587	41.1
1970	18,248	11,277	61.8	8,583	7,124	83.0	9,658	4,153	43.0
1971	18,505	11,362	61.4	8,693	7,146	82.2	9,825	4,215	42.9
1972	18,903	11,361	60.1	8,867	7,138	80.5	10,033	4,224	42.1
1973	19,115	11,182	58.5	8,944	7,003	78.3	10,168	4,179	41.1
1974	19,288	11,187	58.0	9,083	7,030	77.4	10,214	4,157	40.7
1975	19,557	11,226	57.4	9,211	6,982	75.8	10,351	4,244	41.0
1976	19,857	11,279	56.8	9,357	6,971	74.5	10,482	4,308	41.1
1977	20,161	11,411	56.6	9,518	7,043	74.0	10,651	4,367	41.0

[a] Population figures are derived from data on the size of the labor force and the labor force participation rate for each year.

[b] Labor force participation.

Source: U.S. Department of Labor, *Employment and Training Report of the President* (Washington, D.C.: U.S. Government Printing Office, 1978).

until 1967, over 95 percent of men aged 45-54 were counted as being in the labor market. But their participation rate dropped from 94.2 percent in 1970 to 91.2 percent in 1977 (see table 8), and their number in the work force decreased by one-quarter million between 1970 and 1977.

Thus, between 1950 and 1977, while the population of men 45 years and older increased 46 percent, the number of them in the labor force increased only 17 percent. The trend has accelerated so that 625,000 *fewer* older men were working in 1977 than in 1970, despite an increase of over two million in this population group.

The pattern of working by older women is considerably different. The proportion of women 16 and over who worked rose from 32.7 percent in 1948 to 48.4 percent in 1977.[3] Similar increases apply to older women, except for those over age 65. In the late 1950s, the participation rate for women 65 and over rose to 10.8 percent, but subsequently declined to around 8 percent in the mid-1970s; table 6 shows just over one million of them in the work force at that time.

The participation rate for women aged 55-64 rose much faster between 1948 and 1970 than the increase for all women, from 27.0 percent in 1950 to 43.0 percent in 1970 (table 7). Partly because of the increased participation rate and partly because of the growth of population, the

Table 8
Civilian Population and Labor Force by Sex
for Individuals 45–54 Years of Age (in thousands)

	Total in			Males in			Females in		
Year	Population[a]	Labor Force	% LFP[b]	Population[a]	Labor Force	% LFP[b]	Population[a]	Labor Force	% LFP[b]
1950	17,235	11,444	66.4	8,473	8,117	95.8	8,778	3,327	37.9
1955	18,641	12,993	69.7	9,160	8,839	96.5	9,484	4,154	43.8
1960	20,599	14,852	72.1	10,004	9,574	95.7	10,598	5,278	49.8
1965	21,732	15,756	72.5	10,507	10,045	95.6	11,222	5,712	50.9
1970	23,060	16,949	73.5	11,058	10,417	94.2	12,006	6,531	54.4
1971	23,228	17,026	73.3	11,136	10,457	93.9	12,098	6,569	54.3
1972	23,343	16,970	72.7	11,182	10,422	93.2	12,148	6,548	53.9
1973	23,432	16,988	72.5	11,216	10,431	93.0	12,209	6,556	53.7
1974	23,572	17,137	72.7	11,335	10,451	92.2	12,245	6,686	54.6
1975	23,543	17,092	72.6	11,320	10,426	92.1	12,207	6,665	54.6
1976	23,404	16,991	72.6	11,269	10,322	91.6	12,125	6,669	55.0
1977	23,199	16,889	72.8	11,175	10,192	91.2	12,002	6,697	55.8

[a] Population figures are derived from data on the size of the labor force and the labor force participation rate for each year.

[b] Labor force participation.

Source: U.S. Department of Labor, *Employment and Training Report of the President* (Washington, D.C.: U.S. Government Printing Office, 1978).

number of women aged 55-64 in the labor force grew from 1.8 to 4.2 million over two decades. Their participation rate remained virtually constant thereafter, while the rate for all women continued to rise.

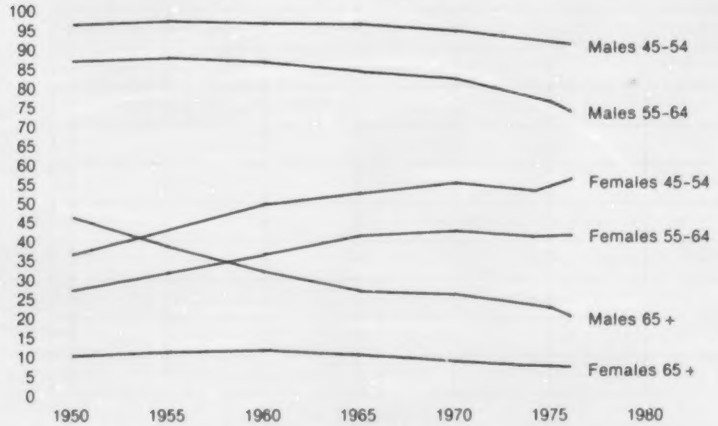
For women aged 45-54, the rate rose from 37.9 percent in 1950 to 54.4 percent in 1970, and the total number of women of this age in the labor force almost doubled (table 8). Since 1970 there has been only a slight increase to the 1977 rate of 55.8 percent.

Figure 1 portrays graphically these dramatic alterations in the older labor force in the United States. The long-run decline in the rate of men 65 and older, the more recent sharp drop in the rate of men 55-64, and the substantial rise in the proportion of women aged 45-64, stand out. As table 9 shows, women now comprise about 40 percent of the 45-and-over labor force, as against 25 percent in 1950. The proportion of workers over 65 has dropped from 13.7 percent of the work force to only 9.3 percent; and the total number of people 45 years of age and over in the labor force also dropped between 1970 and 1977.

The Search for Causes

One of the aims of this study was to analyze the causes of the decline, not merely because they have puzzled observers for a long time, but because public policy decisions depend on them. Different consequences flow if, for example, early retirement or Social Security changes have induced people to shorten their careers than if other forces, such as changed health or life expectancy, are involved.

Figure 1. Labor-Force Participation Rates



Note: Data derived from U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 704, "Projections of the Population of the United States: 1977 to 2050" (Washington, D.C.: U.S. Government Printing Office, 1977); and Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

Table 9
Labor Force Age 45 and Over

Year	Labor Force (in thousands)	Percent Female	Percent Male	Percent 65 and Over
1950	22,115	24.6	75.4	13.7
1960	27,432	33.4	64.6	11.6
1970	31,447	37.3	62.7	10.2
1975	31,257	38.2	61.8	9.4
1977	31,210	38.9	61.1	9.3

Source: Calculated from data in tables 6-8.

Because the problem is intricate, we have examined a range of factors that appear to be influential in determining whether people leave the work force before the "normal" age of retirement. These include economic, demographic, and social factors.

Social Security Retirement Benefits

Other things being equal, the higher the income a worker expects to receive in retirement, the more likely he or she is to retire. Social Security, a key source of retirement income, taxes current workers to provide benefits for current retirees. Since, in the course of a lifetime, an individual covered by this system is both a worker and a retiree, it can be argued that Social Security is a compulsory reallocation of earnings over the life cycle. If Social Security benefits amounted to an actuarially fair return on the taxes paid, the system should have only minor effects on retirement decisions. That is, each worker would get back essentially what he or she had paid in, plus compound interest.

Most of the retirees in the first 30 years of the system, however, received a great deal more in benefits than would be warranted by their contributions. This has probably been one of the primary factors stimulating earlier retirement.

The Social Security Act of 1935 established retirement benefits for workers in commerce and industry (except railroads). Initially only retired workers 65 and older were eligible. A 50 percent benefit for spouses was added in 1939, along with a benefit for widows. In 1956 women aged 62-64 became eligible for reduced retirement benefits; similar coverage was extended to men in 1961.[4]

Compulsory coverage was later extended to farm and domestic workers, farmers, and other self-employed workers. As shown in table 10, these extensions increased the covered labor force from 58 percent in 1940 to

Table 10
Social Security Coverage

Year	Annual average total paid employment (in thousands)	Employees covered by Social Security (in thousands)	Coverage as a percent of employment
1940	46,400	26,800	57.8
1950	60,000	38,700	64.5
1960	67,500	59,400	88.0
1970	80,600	72,100	89.5
1975	86,200	77,600	90.0

Source: Social Security Bulletin: Annual Statistical Supplement, 1975. HEW Publication No. (SSA) 77-11700, table 35, p. 68 (Washington, D.C.: U.S. Government Printing Office, 1977).

90 percent in 1975. The principal groups still outside the system are government employees. State and local governments may choose to be in or out of the system; federal employees are excluded.

Before 1972, Congress raised the benefits periodically. In 1972 Congress enacted an automatic adjustment to reflect changes in the cost of living, but modified it in 1977 to prevent adjustments from rising faster than the rate of inflation. While the consumer price index rose 80 percent from 1965 to 1976, insurance benefits increased 119 percent. These legislative increases, added to the rise in hourly earnings, raised the average monthly benefit of retired workers from $22 in 1940 to over $280 in September 1978. The minimum benefit payable at retirement rose from $10 in 1940 to $107.90 in 1977, while the maximum benefit increased from $41.20 to $412.70.[5]

The growth in benefits and expansion of coverage has brought retirement within the reach of millions of workers. It has been estimated that workers who were first covered in 1937 and retired in 1967 may have received benefits whose present value in 1967 was between two and ten the accumulated value of their tax payments and accrued interest.[6] Increases subsequent to 1967 would raise still higher the actual value of benefits to the early participants. As table 11 shows, nationwide benefits rose from 0.4 percent of personal income in 1950 to 4.7 percent in 1975.

Virtually all retirement studies support the hypothesis that higher Social Security benefits reduce labor-force participation.[7] The rapid growth and development of the system, largely unanticipated, have given a powerful impulse to earlier retirement.

Changes in the age of eligibility for retirement benefits also encourage withdrawal from the labor force. It can hardly be coincidence that the participation rate of workers aged 55-64 began declining in the early 1960s,

Table 11
Total Benefits Paid for Old Age and Survivors Insurance (OASI)

Year	Cash benefits (in millions)	Personal income (in millions)	Benefits as a percent of personal income
1940	.35	77,813	[a]
1950	961	226,102	0.4
1960	10,677	399,724	2.7
1965	10,737	537,031	3.1
1970	28,796	801,271	3.6
1975	58,509	1,249,673	4.7

[a] Less than 0.05 percent.

Source: Social Security Bulletin: Annual Statistical Supplement, 1975, p. 86.

shortly after the law made individuals aged 62-64 eligible for reduced Social Security benefits. The age of eligibility for benefits also has a ripple effect, because employers formulate their pension systems around Social Security. This indirect influence has been significant during the past three decades, the formative stage for private pensions.

Social Security Penalties and Bonuses for Continued Employment

Since Social Security benefits were meant not to be an old-age annuity, but to replace earnings lost through retirement, the receipt of benefits has always been subject to some form of earnings test. The 1935 legislation cut off all monthly benefits if the beneficiary had *any* earnings. A series of amendments gradually loosened this provision, and by 1979 benefits were being reduced by only one dollar for each two dollars of earnings above an exempt base of $4,500. In addition, Congress has lowered the age at which a beneficiary is free of the earnings test.[8]

In the opinion of a number of researchers, the earnings test reduces labor-force participation because it lowers the rewards of continued employment.[9] Some argue that the true marginal tax rate on earnings above the $4,500 base is well above the 50 percent reduction in benefits, and that, in fact, a middle-income worker is hit with a tax rate of over 70 percent when income and other taxes are included.[10]

If this reasoning were correct, the decline in proportion of workers over 65 should have slowed, not accelerated, as penalties were relaxed over the years. More likely the effect of the earnings test has been to induce older workers to limit their earnings by working part time; the proportion working less than 35 hours per week did rise from 20 percent in 1957 to 42 percent in 1974.

The earnings test has been one of the most unpopular features of the Social Security program: many older persons believe they are denied benefits to which they are entitled. This unhappiness reflects a lack of understanding of the gains from continued employment. For example, delaying the receipt of benefits from age 62 until 65 is compensated by a subsequent increase in benefits by 5.9 percent. Moreover, continued employment may raise one's salary history, which also leads to an increase in subsequent benefits.

The 1972 amendments provided a 1 percent per year increase in benefits if they are delayed past the age of 65. In 1977 this bonus was raised to 3 percent per year.

The combination of these effects reduces the effect of the earnings test on the decline of labor-force participation by older workers.

Disability Benefits

In 1956 disability insurance was incorporated into the Social Security system, providing benefits for disabled workers 50 and older. Subsequent legislation added benefits for the dependents of disabled workers. In 1960 protection was extended to disabled workers regardless of age. As a result, the number of beneficiaries and total expenditures zoomed. Between 1966 and 1975 recipients increased from 1.9 million to 4.4 million, while total expenditures rose from $1.8 billion to $8.4 billion.[11] Since 1975 the trend has turned down.

The availability of disability benefits, it has been argued, causes many disabled workers to stop working.[12] On the one hand, poor health often makes work more onerous; on the other, most disability benefits are payable only if the worker stops working. Thus, eligibility for disability benefits may well have played a role in the decline of labor-force participation by workers aged 45-64. Table 12 illustrates the increasing percentage of men receiving disability benefits.

Based on the calculation that in the absence of this program 40 percent of the severely disabled men aged 18-64 receiving disability benefits would be in the labor force, it is estimated that the growth in disability benefits from 1955 to 1972 reduced the participation rates of prime-age men by the following percentage points:[13]

Age	White	Black
25-34	– .19	– .39
35-44	– .46	– .92
45-54	–1.12	–2.09

Recall from table 8 that during this period of time–1955 to 1972–the participation rate of all males declined from 96.5 percent to 93.2 per-

Table 12
Percentage of Men Receiving Social Security Disability
Benefits at End of Year, 1957-72

	Age 25-34		Age 35-44		Age 45-54	
Year	White	Black	White	Black	White	Black
1957	-	-	-	-	.26	.32
1958	-	-	-	-	.39	.50
1959	-	-	-	-	.56	.79
1960	.05	.08	.15	.25	.72	1.18
1961	.15	.27	.42	.77	1.06	1.87
1962	.20	.37	.55	1.05	1.26	2.38
1963	.22	.43	.62	1.20	1.43	2.71
1964	.22	.44	.66	1.26	1.52	2.88
1965	.23	.45	.73	1.41	1.66	3.16
1966	.25	.47	.81	1.55	1.83	3.47
1967	.26	.49	.86	1.66	1.96	3.74
1968	.30	.58	.92	1.79	2.09	3.96
1969	.33	.67	.96	1.91	2.20	4.12
1970	.36	.72	1.00	2.01	2.33	4.38
1971	.42	.81	1.08	2.18	2.55	4.79
1972	.47	.98	1.15	2.30	2.81	5.22

Source: Frederic Siskind, "Labor Force Participation of Men, 25-54, by Race," *Monthly Labor Review*, July 1975, pp. 40-42.

cent, 3.3 percentage points. Therefore, if the above estimates of the labor-supply effect of the Social Security disability program are correct, the program accounted for a considerable portion of the decline.

In addition to the Social Security disability program, many companies now provide disability benefits, which should strengthen the incentive of injured workers to leave the job. Earnings limitations and the difficulty of finding a new job may induce the disability-retired worker to stop working for good.

Private Pensions

Retirement from the firm is a condition for receiving private pension benefits, and these benefits provide retirement income that encourages older workers to stop working. Most studies have therefore concluded that eligibility for, and the size of, pension benefits affect the labor-force participation rate.[14]

Private pensions have grown rapidly in the past three decades. As table 13 shows, the number of workers covered by pension plans grew from 10 million in 1950 to 30 million in 1975; from 22 percent of the labor force to 46 percent. Annual contributions have risen both in absolute terms and as a percent of national payrolls.

Table 14 illustrates that the average size of real pension benefits remained fairly stable from 1965 to 1975, holding at about 25 percent of the earnings of production workers since 1955.

Thus the expansion of coverage may have favored earlier retirement, but the level of benefits has not. As with Social Security, some workers have benefited greatly from being included in a new pension plan late in their work life, and this stimulated earlier retirement.

Companies sometimes relax the terms of a pension plan to encourage early retirement. Two decades ago it was common that a worker who retired early suffered a permanent reduction of monthly benefits. Some firms now offer full benefits when service requirements are met, regardless of age; many have lowered the minimum age for full pension benefits. These changes encourage early retirement because they reduce the advantage of continued employment.[15]

In addition, firms seeking to reduce their work force have increasingly relied on early retirement bonuses or buyouts (see chapter 5). Another frequent device is severance pay for older workers, which continues until they are eligible for full retirement benefits.

The declining age of eligibility and other early retirement incentives have undoubtedly contributed to the lower participation rates of those aged 45-64.

Mandatory Retirement

Mandatory retirement is a relatively recent policy, which has paralleled the growth of private pensions. A 1961 survey of companies with 50 or more employees revealed that firms without pension plans rarely had mandatory retirement policies, but 75 percent of companies with pensions did have them.[16] In 1974 some 10.4 million workers, almost 45 percent of the number of workers covered by pension plans, worked for organizations with mandatory retirement policies. [17]

Has mandatory retirement cut older persons out of the labor force? While retiring from a firm is not the same as leaving the labor force altogether, the loss of seniority protection, job status, and skills specific to the organization may well have that effect.

Surveys by the Social Security Administration show that an increasing proportion of men 65 and older retired because they reached the compulsory retirement age. William Bowen and T. A. Finegan estimate that compulsory retirement lowered the labor-force participation rate of men 65 or older by five percentage points. [18]

The impact of mandatory retirement diminished as more and more workers chose to retire earlier and earlier. If mandatory retirement had been eliminated in 1970, it would have increased the labor-force participation of 65-year-olds by less than 10 percentage points, according to James Schulz and Janice Halpern. [19]

Table 13
Pension Plans and Deferred Profit-Sharing Plans of Wage and Salary Workers in Private Industry

Year	Coverage (in millions)	Coverage as a percent of workers	Employer and employee contributions (in millions of dollars)	Contributions as a percent of national payroll
1950	9.8	22.5	2,080	1.67
1955	14.2	29.6	3,840	2.19
1960	18.7	37.2	5,490	2.46
1965	21.8	39.5	8,360	2.86
1970	26.1	42.1	14,000	3.25
1971	26.4	42.6	16,640	3.66
1972	27.5	43.1	18,540	3.74
1973	29.2	43.7	21,100	3.82
1974	29.8	44.0	25,020	4.14
1975	30.3	46.2	29,850	4.73

Source: Martha Remy Yohalem, "Employee-Benefit Plans, 1975," *Social Security Bulletin*, November 1977, tables 1–4.

Table 14
Benefits and Replacement Ratios from Private Pensions and Social Security

Year	Real average pension benefit (in 1967 dollars)	Pension benefit as a percent of earnings[a]	Real average Social Security retired worker benefit (in 1967 dollars)	Social Security benefit as a percent of earnings[a]
1950	1,140	30	702	18
1955	1,081	25	884	24
1960	1,089	23	946	20
1965	1,355	26	1,017	19
1970	1,335	25	1,178	22
1971	1,367	25	1,260	23
1972	1,438	25	1,504	27
1973	1,386	24	1,457	26
1974	1,370	25	1,488	27
1975	1,303	25	1,501	28

[a] Earnings of production workers on private nonagricultural payrolls.

Source: U.S. Department of Labor, *Employment and Earnings, 1977;* U.S. Social Security Administration, *Social Security Bulletin: Annual Statistical Supplement, 1975*, table 54; Martha Remy Yohalem, "Employee-Benefit Plans, 1975," *Social Security Bulletin*, November 1977, table 6.

In summary, although mandatory retirement may have contributed somewhat to the decline in participation of people over 65, its influence has dwindled in recent years due to voluntary early retirements, and it probably has had minimal impact on the labor-force participation of people under 65.

Health

Ill health impairs a worker's productivity and the range of jobs he or she can efficiently perform. It also can make work more painful and burdensome. As a result, it is difficult for unhealthy workers to find or keep jobs or to demand wages commensurate with their skills.

Older persons with ill health are thus more likely than healthy workers to be out of a job. Virtually every study of retirement has found health an important predictor of labor-force participation by older workers—often the most important.[20]

Nevertheless, it has yet to be shown that changes in the health of older workers have contributed to the decline in participation. Most measurements indicate that the health of older persons has improved. Since 1940, life expectancy at age 65 has increased sharply for women, more moderately for men (see table 15). Table 16 shows that death rates have declined over the last four decades. Such trends should, if anything, have raised the age of retirement.

Table 15
Life Expectancy at Birth and at Age 65, by Race and Sex

	At Birth		At Age 65	
Race and Year	Male	Female	Male	Female
White				
1900-02	48.2	51.1	11.5	12.2
1939-41	62.8	67.3	12.1	13.6
1954	67.4	73.6	13.1	15.7
1968	67.5	74.9	12.8	16.4
1976	69.7	77.3	13.7	18.1
Nonwhite				
1900-02	32.5	35.0	10.4	11.4
1939-41	52.3	55.6	12.2	13.9
1954	61.0	65.8	13.5	15.7
1968	60.1	67.5	12.1	15.1
1976	64.1	72.6	13.8	17.6

Source: Jacob Siegel, "Recent and Prospective Demographic Trends for the Elderly Population and Some Implications for Health Care," presented to Second Conference on the Epidemology of Aging, March 1977, table 7.

Table 16
Death Rates[a] for the Population 55 Years Old and Over

Year and period	Age 55-64	Age 65-74	Age 75-84	85 years and Over	65 Years and Over
1940	22.2	48.4	112.0	235.7	72.2
1954	17.4	37.9	86.0	181.6	58.6
1968	17.0	37.2	82.9	195.8	61.4
1976	14.8	31.3	73.3	155.7	54.3
1977 (prov.)	14.3	30.5	71.5	145.9	52.6
		Percent Change			
1940-54	−21.6	−21.7	−23.2	−23.0	−18.8
1954-68	− 2.3	− 1.8	− 3.6	+ 7.8	+ 4.8
1968-77	−15.9	−18.0	−13.8	−25.5	−14.3

[a] Deaths per 1,000 people.

Source: Jacob Siegel, "Recent and Prospective Demographic Trends for the Elderly Population and Some Implications for Health Care," presented to Second Conference on the Epidemology of Aging, March 1977, table 8.

The evidence suggests that the growing availability of pensions and disability benefits has made it easier for workers with health problems to retire, and thus may have lowered labor-force participation.

Changing Labor-Market Conditions

Rapid urbanization and the corresponding movement of people off the farm have been the most important demographic changes to have lowered the labor supply of older people, according to Bowen and Finegan. They estimate that these shifts reduced the participation rate of men over 64 by 2.7 percentage points between 1948 and 1965.[21]

The influx of young, better educated workers—especially women—sharpened job competition for older workers and may have discouraged some from remaining in the work force.

The decline in the number of self-employed also may have reduced participation. Self-employed workers have more flexible working arrangements and can better reduce their hours of work while continuing on the job. Research indicates that older workers would, if they could, gradually reduce the number of hours they work per week, but usually cannot because of incentives to retire and the inflexibility of many employers.

Dual-Career Families

With more women working, many families, as they approach retirement age, will have two earners who have spent most of their adult lives at work. Such families will have higher lifetime incomes, and both spouses may have accumulated private pension and Social Security benefits. How this will affect retirement decisions is unclear at this point, although Robert Clark, Thomas Johnson, and Ann McDermed have estimated that a worker is likely to continue working if the spouse does.[22] In other words, the delay of a wife's retirement will postpone her husband's, too.

Lifetime Wealth

Long-run economic growth results from increases in real productivity that give rise to higher real wages. As a result, individual lifetime earnings, and the wealth of each succeeding generation, increase. The United States has enjoyed many years of rising per-capita income and national wealth, which are reflected by the fall in average hours of work per week and the increased tendency toward early retirement.[23] The impact, however, has yet to be measured.

Conclusions

The availability and size of pension and Social Security benefits influence retirement decisions. The level of retirement income relative to preretirement earnings is of special importance. Table 17 illustrates the

Table 17
Retirement Income Equivalent to Preretirement Income for Married Couples Retiring January 1976, Selected Income Levels

	Preretirement tax payment (in dollars)				Equivalent retirement income[c]	
Preretirement income (in dollars)	Federal income	Old Age and Survivors Disability and Health Insurance (OASDHI)	State and local income[a]	Reduction in expenses at retirement[b] (in dollars)	(in dollars)	Percent of preretirement income (in dollars)
4,000	28	234	4	544	3,190	80
6,000	330	351	43	816	4,460	74
8,000	679	468	89	1,088	5,676	71
10,000	1,059	585	139	1,360	6,857	69
15,000	2,002	824	262	2,040	9,872	66

[a] In 1974 state and local income tax receipts were 13.1 percent of federal income tax receipts. This percentage probably rose in 1975 because federal taxes decreased while state taxes increased. Therefore, the percentage of preretirement income needed to maintain living standards is probably slightly overstated.

[b] Consumption requirements for a two-person husband-wife family after retirement are 86.4 percent of those for a like family before retirement (age 55 to 64). Savings are therefore estimated at 13.6 percent of preretirement income.

[c] Assumes that retirement income is not subject to tax. If retirement income is subject to taxation, a larger preretirement disposable income would be needed to yield the equivalent retirement income.

Source: Alicia Munnell, *The Future of Social Security* (Washington, D.C.: The Brookings Institution, 1977), p. 59.

amounts needed to maintain different levels of preretirement disposable income. Some analysts argue that improvements in Social Security benefits now enable many low- and middle-income workers to achieve this standard when they retire. The significant growth of Social Security and, to a lesser extent, private pensions has been a primary force in lowering the participation rate of persons 62 and older.

The maturing of the nation's disability insurance program has stimulated the decline in participation of persons aged 45-64. The growth in lifetime wealth has also contributed to the lowering of the retirement age. While other factors may alter individual retirement plans, these changes are the principal reasons why proportionately fewer older persons work.

However, many recent forces are working to change this trend. Chapter 4 outlines them and demonstrates the difference between the BLS assumptions and others that give more weight to these new forces.

NOTES

1. Juanita Kreps and Robert Clark, *Sex, Age and Work* (Baltimore: Johns Hopkins University Press, 1975) examines these trends and discusses their causes.

2. Clarence Long, *The Labor Force Under Changing Income and Employment* (Princeton: Princeton University Press, 1958). Also see Gertrude Bancroft, *The American Labor Force* (New York: John Wiley, 1958). Due to a change in reporting standards, the data in these volumes are not strictly comparable to the post-World War II data reported in tables 1-3.

3. For an examination of the causes of these changes, see Glen Cain, *Married Women in the Labor Force* (Chicago: University of Chicago Press, 1966); Kreps and Clark, op. cit.; and Beverly McEaddy, "Women in the Labor Force: The Later Years," *Monthly Labor Review*, November 1975, pp. 17-24.

4. Alicia Munnell, *The Future of Social Security* (Washington: The Brookings Institution, 1977) provides an interesting analysis of the development and current problems of the Social Security system.

5. *Social Security Bulletin, Annual Statistical Supplement*, 1975, p. 68; and *Social Security Bulletin*, January 1979, p. 1.

6. Joseph Pechman, Henry Aaron, and Michael Taussig, *Social Security: Perspectives for Reform* (Washington, D.C.: The Brookings Institution, 1968).

7. Joseph Quinn, "Microeconomic Determinants of Early Retirement," *Journal of Human Resources*, Summer 1977, pp. 329-46; Michael Boskin, "Social Security and the Retirement Decision, *Economic Inquiry*,

January 1977, pp. 1-25; and William Bowen and T. A. Finegan, *The Economics of Labor Force Participation* (Princeton: Princeton University Press, 1969).

8. Initially all beneficiaries were subject to the earnings test. Those 75 years and older were excluded in 1950, and the age of exemption was lowered to 72 in 1954. The 1977 amendments remove the earnings test for everyone over age 70, beginning in 1982.

9. See, for example, Bowen and Finegan, op. cit. and Boskin, op. cit.

10. George Tolley and Richard Burkhauser, "Integrating Social Security into an Incomes Policy," in *Income Support Policies for the Aged*, edited by George Tolley and Richard Burkhauser (Cambridge, Mass.: Ballinger Publishing Co., 1977).

11. Mordechai Lando and Aaron Krute, "Disability Insurance: Program Issues and Research," *Social Security Bulletin*, October 1976.

12. Joseph Gastwirth, "On the Decline of Male Labor-Force Participation," *Monthly Labor Review*, October 1972, pp. 44-46.

13. Frederic Siskind, "Labor-Force Participation of Men, 25-54, by Race," *Monthly Labor Review*, July 1975, pp. 40-42.

14. Richard Barfield and James Morgan, *Early Retirement: The Decision and the Experience* (Ann Arbor: Institute for Social Research, University of Michigan, 1969); Richard Burkhauser, "The Pension Acceptance Decision of Older Workers," *Journal of Human Resources*, Winter 1979, pp. 63-75; and Quinn, op. cit.

15. Robert Clark and Ann McDermed, "Inflation, Pension Benefits and Retirement," unpublished paper, October 1979, illustrates how alternative pension characteristics can be used to encourage early retirement.

16. Fred Slavick, *Compulsory and Flexible Retirement in the American Economy* (Ithaca, N.Y.: Cornell University, 1966).

17. Dorothy Kittner, "Forced Retirement: How Common Is It?" *Monthly Labor Review*, December 1977, pp. 60-61.

18. Bowen and Finegan, op. cit.

19. James Schulz, *The Economics of Aging* (Belmont, Calif.: Wadsworth, 1976); Janice Halpern, "Raising the Mandatory Retirement Age," *New England Economic Review*, May 1978, pp. 23-35.

20. See Quinn, op. cit.; Robert Clark, Thomas Johnson, and Ann McDermed, "Allocation of Time by Married Couples Approaching Retirement," unpublished paper, October 1979; and Bowen and Finegan, op. cit.

21. Bowen and Finegan, op. cit., p. 354.

22. Clark, Johnson, and McDermed, op. cit.

23. H. Gregg Lewis, "Hours of Work and Hours of Leisure," in *Proceedings of the Ninth Annual Meeting*, edited by L. Reid Tripp (Madison, Wisc.: Industrial Relations Research Association, 1957), pp. 1-11.

4 / Will Older People Continue to Leave Their Jobs?

Will the factors responsible for the decline of labor-force participation continue to operate in the same way during the 1980s, or will new developments change the trend?

A survey report published in late January 1980 suggests that a change is in the wind, still too tenuous for confident prediction. The survey, conducted in fall 1979, questioned a sample of employers about the effects of raising the age for mandatory retirement. Of the 267 who responded,

> more than a fifth . . . note an increase in the number of employees electing not to retire by age 65. Many of the respondents were unable to specify the exact increase, although a number describe it as "slight," "minute," "small," or "minimal." Of those who provided percentages of eligible retirees, five respondents estimate that 20 percent or 25 percent more employees are working beyond age 65, and another five report that half of their eligible employees are staying beyond normal retirement. One employer, a Minnesota medical center, reports that "100 percent of those who are eligible to retire at 65 have elected to stay on at least part time." An eastern government agency that had a mandatory retirement age of 65 before January finds that "of those now retiring, 5 percent are 65+."[1]

Social Security

The rise in coverage and amount of Social Security benefits has to be paid for, through higher payroll taxes on employers and employees. In the coming years, payroll taxes will rise faster still, as illustrated in table 18. We can expect heated public debate about reducing benefits and/or raising the age of eligibility. To the extent that lifetime benefits are reduced, workers will probably delay retirement.

Numerous policy changes to encourage people to keep working have been proposed. They include relaxing the earnings test, raising the age of eligibility for initial benefits, increasing the gain in benefits through continued working, and reducing monthly benefits. These options differ in their desirability and in their influence on labor supply. For example, changing the age of eligibility would have more effect than raising or lowering monthly benefits.

The recent increases in payroll taxes may directly alter employers' pension plans. In plans that are integrated with Social Security, as larger and larger proportions of earnings become subject to payroll taxes, the significance of the private pension will diminish, thus retarding the expansion of other retirement programs and reducing incentives to retire.

A rise in the age of eligibility would lower lifetime benefits as well as postpone access to the benefits. Both changes would discourage early retirement and cut the costs of the Social Security system, but might create special hardships for some people in their early sixties.

The rise in the number of older people will probably necessitate some changes to stop further tax increases. As we have noted, these changes will prolong employment.

Another change that would delay retirement is the elimination or further liberalization of the earnings test. Although this may have unwanted effects on income distribution and would also raise current expenditures,[2] it would encourage people to keep working. So would increasing the bonus for delaying receipt of benefits.

Private Pensions

Preferential tax treatment of employers' pension contributions and of pension-fund earnings has been a dominant factor in the spread of private

Table 18
Social Security Payroll Tax Rate and Wage Base under Current Legislation

Year	Tax Rate[a]	Wage Base
1979	6.13	22,900
1980	6.13	25,900
1981	6.65	29,700
1982	6.70	b
1983	6.70	b
1984	6.70	b
1985	7.05	b
1986	7.15	b
1987	7.15	b

[a] Both the employee and the employer are taxed at this rate.

[b] Beginning in 1982 the amount will be determined automatically under the law on the basis of the annual increase in average earnings in covered employment.

Source: James Schulz, *The Economics of Aging*, 2nd ed. (Belmont, Calif.: Wadsworth, 1980), p. 151.

pensions. With the tax loss estimated at $11 billion a year, some writers have questioned the equity of what amounts to massive income transfers to middle- and high-income workers. On the other hand, millions of wage earners have also benefited from pensions. Changes of tax status would clearly alter the future pattern of employer pensions.

Several important public-policy questions arise in connection with private pensions. Should the government do more to encourage the spread of coverage? Is greater regulation needed? (There is evidence that increased regulation retarded the expansion of pensions.) Should government discourage the early-retirement incentives built into many plans? How these and other questions about private pensions are decided will affect the personnel policies of firms and the retirement decisions of older workers.

The impact of further government regulation of pensions is ambiguous; some guidelines would increase the safety of benefits for workers already covered, while others would reduce the number of workers covered.

Mandatory Retirement

Current "best estimates" are that relatively few older workers previously subject to mandatory retirement at 65 or below will choose to stay on the job just because the age has been lifted to 70. However, the long-term effect may be greater than at first realized, as older workers begin to calculate the advantages of several years of continued employment.

If workers remain past the previous age limit, how will firms respond? Some may retrain them or redesign their jobs. Others may try to restore the previous age distribution of the work force through disincentives, such as lowering older workers' wages and/or fringe benefits. For example, they may terminate pension credits at the normal retirement age. Firms' responses will in large measure determine whether the outlawing of mandatory retirement will in the long run encourage later retirement.

Inflation

Workers' retirement decisions are affected by their expectations as to inflation and the ability of retirement income to keep up with inflation. If older workers expect several years of rapid inflation, they may delay retirement, anticipating that wages will rise along with prices and that higher wages will result in higher pension benefits.[3]

Pension benefits in most plans are not automatically adjusted to keep annuitants abreast of inflation. The dramatic effects of inflation on the real value of pension benefits, as illustrated in table 19, will tend to delay retirement.

Inflation increases the attractiveness of Social Security benefits, which are indexed to price changes, more than that of private pension benefits, which generally are not. Workers and unions will demand cost-of-living protection for their pension benefits. If firms cannot or will not agree,

Table 19
Real Replacement Rates after 5, 10, 15, and 20 Years of Retirement with Alternative Rates of Inflation

Years in retirement	Real value of retirement income based on initial replacement rate of 100 %			
	No inflation	3% annual rate of inflation	5% annual rate of inflation	10% annual rate of inflation
0	100	100	100	100
5	100	86	78	62
10	100	74	61	39
15	100	64	48	24
20	100	55	38	15

Source: Robert Clark, *The Role of Private Pensions in Maintaining Living Standards in Retirement* (Washington, D.C.: National Planning Association, 1977), p. 42.

workers may shift their attack and go for legislation to raise Social Security benefits.

Health

In general, improvements in health can be expected to increase the proportion of older workers in the labor force by reducing the cost of employer-paid medical benefits and increasing the willingness of firms to hire older workers.

Health gains that reduce death rates will increase the number of older persons and their percentage of the total population. Some researchers believe that medical advances will lead to a larger over-65 population than the census now projects.[4]

Education

Higher levels of education usually bring more pleasant job conditions, higher wages, and a greater desire to work. Better-trained workers are in greater demand and have less trouble finding and keeping jobs.

Table 20 illustrates how educational decisions already taken will produce a more highly educated older population. The proportion of individuals 55-64 who are high school graduates will increase from 40 percent in 1970 to 71 percent in 2000, and the proportion for persons 65-74 will rise from 29 percent in 1970 to 62 percent in 2000.[5]

The education level of older workers vis-a-vis younger workers has an important bearing on their competitiveness in the labor market. During the 1970s, the average length of schooling of individuals 65 and older increased to 73 percent of the average schooling of persons 25 and over. It will reach 94 percent by 1990. These changes should enhance the labor-market status of older workers and prolong their working life.

Personnel Policy

As workers age, they may desire to reduce their hours of work gradually, or shift to less arduous tasks, while remaining employed. Most are now precluded from phased retirement because rules require a minimum of hours. Pension systems based on final years' earnings also discourage part-time work. Older workers may elect to quit working completely rather than continue to work full time. Increased flexibility of hours would increase their propensity to remain at work.

Other personnel policies that influence the desirability of work could be made more flexible to accommodate the older worker, but whether that will happen depends on the demand for their services.

The employer, too, has economic motivations that may encourage a longer working life. Employers may become increasingly aware of their investments in older employees—the training, loyalty, and know-how these employees represent.

Because of the large number of older people in the population, the increased desire of many of them to continue working, and a greater awareness of the difficulty of dismissing them, employers may decide that they have virtually no choice but to retain their older employees—particularly in the absence of strong documentation of inadequate work performance. If, in general, an employer's work force becomes older, salary

Table 20
Educational Status of Elderly

Age	1970	2000[a]
	Median years of schooling completed	
55-64	10.6	12.5
65-74	8.8	12.3
75 +	8.5	12.1[b]
	Percent of cohort that are high school graduates	
55-64	40.4	71.5
65-74	29.2	61.7
75 +	24.1	54.2[b]

[a] The projections for 2000 assume that no additional education is completed after 1970 and that differential mortality rates do not influence the measures of educational attainment for the cohort. Thus, the estimates may somewhat underestimate the educational attainment of these cohorts in 2000.

[b] Only population aged 75-84 is represented in these figures.

Source: U.S. Bureau of Census, *Census of Population: 1970* Subject Reports, Final Report PC(2)-5B. "Educational Attainment," table 1 (Washington, D.C.: U.S. Government Printing Office, 1973).

costs are likely to rise. The employer therefore must recover those costs through better productivity and efficiency.

If death rates keep dropping and longevity increases, there will be major implications for pension coverage and pension costs, as described in chapters 5 and 6. On average, retirees will draw pensions over a longer period. This may indeed put a premium on encouraging workers to stay longer. If a typical worker lives to age 85, management may prefer that retirement be delayed as long as possible. The difference in cost between drawing a pension at age 70 and drawing one at age 57 or 59 will be hard to overlook.

Other Factors Tending to Delay Retirement

In addition to money, a number of other factors will encourage older people to continue working. A job usually means emotional and psychological ties to others on and off the job. The older population contains a high proportion of single people, particularly widows and widowers, for whom work offers the hope of social interchange. In the anonymity and insularity of urban society, work fulfills many otherwise unmet needs.

Greater attention to the quality of working life and the use of flexible work schedules in the 1980s may also encourage older workers to remain in the labor force. Constructive employer policies, such as those described in chapters 5 to 9 of this report, move in that direction. Political and legal factors may also play a part. As employers become increasingly sensitive to the Age Discrimination in Employment Act (ADEA) and its enforcement, age discrimination, inadvertent as well as intended, may diminish.

The trend of wages and lifetime earnings can be expected to influence future patterns of retirement. If annual productivity gains in the future are lower than they have been over the last 50 years, higher lifetime living standards will be harder to achieve and the lure of early retirement will diminish.

Some researchers have argued that competition from young workers has forced the elderly out of the labor market. Pressure from the entrance of new workers should decline over the remainder of this century. The number of people aged 18-24 is expected to decline from 29 million in 1978 to less than 25 million by 1995 (see chapter 2). However, the increased number of older people may cause internal competition and thus depress relative wages.

Alternative Projections

Since the impact of the forces described above cannot be measured in advance, we recommend that planning for the 1980s give as much weight to the possibility that the labor-force participation by older workers will plateau or rise as to the BLS projection that it will decrease.

Let us consider two other assumptions: (1) that participation rates plateau for the next five years, 1980-85; or (2) that participation actually increases. We have projected these two alternative assumptions in tables 21 through 24. In each case, we carried forward the BLS numbers for 1977 to the year 1980. Obviously, this will be incorrect, but the differences may not be very significant.

Table 21
Civilian Labor-Force Participation Rates,
Alternative Growth Assumption No. 1[a] (in percent)

	Projected Rates		
	1980	1985	1990
Men			
55-64	74.0%	74.0%	79.0%
65 and over	20.1%	20.1%	22.6%
Women			
55-64	41.0%	41.0%	46.0%
65 and over	8.1%	8.1%	10.6%

[a] The participation rate for men and women 55 and over will remain constant from 1980 to 1985 and then will increase by 1 percent per year until 1990 for those 55-64; and by ½ percent per year for those 65 and over.

Note: Data derived from U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 704, "Projections of the Population of the United States: 1977 to 2050" (Washington, D.C.: U.S. Government Printing Office, 1977); and Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

Table 22
Civilian Labor-Force Participation Rates,
Alternative Growth Assumption No. 2[a] (in percent)

	Projected Rates		
	1980	1985	1990
Men			
55-64	74.0%	79.0%	84.0%
65 and over	20.1%	22.6%	25.1%
Women			
55-64	41.0%	46.0%	51.0%
65 and over	8.1%	10.6%	13.1%

[a] The participation rate will increase by 1 percent per year from 1980 to 1990 for those 55-64; and by ½ percent per year for those 65 and over.

Note: Data derived from U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 704, "Projections of the Population of the United States: 1977 to 2050" (Washington, D.C.: U.S. Government Printing Office, 1977); and Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

Table 21 projects the civilian labor-force participation rates for 1985 and 1990 on the assumption that participation rates will plateau from 1980 to 1985. Then, from 1985 through 1990, we assume that the participation rates for both sexes will advance by 1 percent per year for the 55-64 age group, and by one-half of 1 percent per year for the 65-and-over group.

Table 23
Civilian Labor Force, Alternative Growth Assumption No. 1[a] (in millions)

	Projected Labor Force		
	1980	1985	1990
Men			
55-64	7.0	7.6	7.8
65 and over	1.8	2.2	2.6
Women			
55-64	4.4	4.6	5.0
65 and over	1.1	1.2	1.7

[a] The participation rate for men and women 55 and over will remain constant from 1980 to 1985 and then will increase by 1 percent per year until 1990 for those 55-64; and by ½ percent per year for those 65 and over.

Note: Data derived from U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 704, "Projections of the Population of the United States: 1977 to 2050" (Washington, D.C.: U.S. Government Printing Office, 1977); and Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

Table 24
Civilian Labor Force, Alternative Growth Assumption No. 2[a] (in millions)

	Projected Labor Force		
	1980	1985	1990
Men			
55-64	7.0	8.1	8.3
65 and over	1.8	2.4	2.8
Women			
55-64	4.4	5.1	5.5
65 and over	1.1	1.6	2.1

[a] The participation rate will increase by 1 percent per year from 1980 to 1990 for those 55-64; and by ½ percent per year for those 65 and over.

Note: Data derived from U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 704, "Projections of the Population of the United States: 1977 to 2050" (Washington, D.C.: U.S. Government Printing Office, 1977); and Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

The result is that the participation rate for men aged 55-64 stays at 74 percent through 1985, and then advances to about 79 percent by 1990. For men aged 65 and over, the rate of 20.1 percent increases to 22.6 percent by 1990. The rates for women increase similarly: women aged 55-64, from 41 percent to 46 percent and women 65 and over, from 8.1 percent to 10.6 percent.

Table 22 assumes that the labor-force participation rates for both sexes will increase slowly but steadily. The increase is projected at 1 percent per year for both men and women 55-64 years old and one-half of 1 percent per year for those 65 and over.

This assumption leads to increases in labor-force participation from 74 percent to 84 percent over ten years for men 55-64; from 20.1 percent to 25.1 percent for men 65 and over; from 41 percent to 51 percent for women 55-64; and from 8.1 percent to 13.1 percent for women 65 and over.

These percentage changes have been applied to the actual numbers of older people in the work force in 1977, taken as the 1980 base, with results as shown in tables 23 and 24. On Alternative Growth Assumption No. 1, the number of men 55-64 who are working would increase from 7.0 million to 7.8 million; the number of men 65 and over would increase from 1.8 million to 2.6 million. For women 55-64, the increase would be from 4.4 million to 5.0 million, and for women 65 and over, the increase would be from 1.1 million to 1.7 million.

Alternative Growth Assumption No. 2 produces more striking results. By 1990 the number of men 55-64 in the work force would increase by 1.3 million; men 65 and over, by 1.0 million; women 55-64, by 1.1 million; and women 65 and over, by 1.0 million.

The projections of the BLS and the two alternative assumptions are shown graphically in figures 2 through 5.

All three projections presume that the economy will be able to supply enough jobs, either full time or (more likely) part time, to match the demand for work implied by these increases.

Table 25 compares the three assumptions in terms of the numbers of older people who would be working in 1985 and 1990.

By 1990, if Assumption No. 1 were roughly correct, the result would be 3.7 million (or 28 percent) more people aged 55 and over in the work force than in the BLS projection. Using Assumption No. 2, the resulting increase in 1990 would be 5.3 million (or 40 percent) more than the BLS projection.

These broad demographic forces have implications for the employer. First, the national trends are likely to have a practical impact on the decision making of each employer. Second, the demographics within each firm may vary considerably from the national trends in ways that matter

Civilian Labor Force 1980-1990

Figure 2. Men 55-64

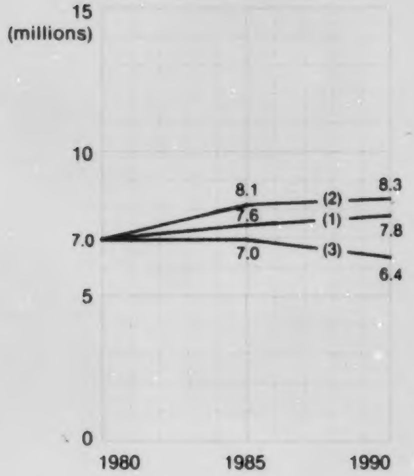


Figure 3. Men 65 and over

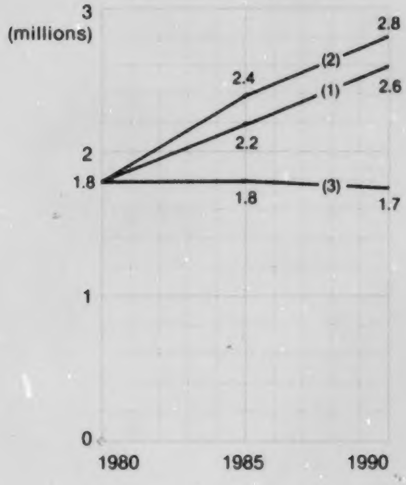


Figure 4. Women 55-64

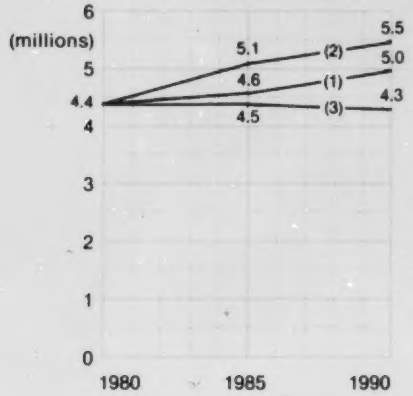
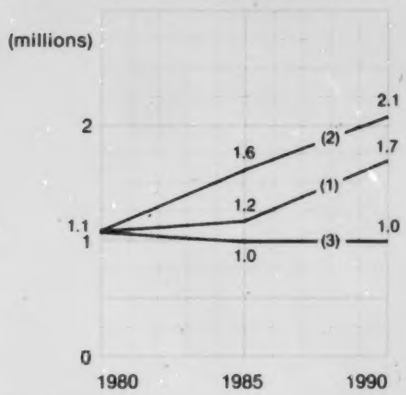


Figure 5. Women 65 and over



(1) Alternative Growth Assumption No. 1
(2) Alternative Growth Assumption No. 2
(3) Intermediate Growth Assumption (BLS)

Note: Data derived from U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 704, "Projections of the Population of the United States: 1977 to 2050" (Washington, D.C.: U.S. Government Printing Office, 1977); and Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25-35.

Table 25
Older People in the Civilian Labor Force (in millions)

Assumption	1980	1985	1990
BLS intermediate assumption (continuation of historical deadline)	14.3	14.3	13.4
Assumption no. 1 (a plateau to 1985; then an increase for 5 years)	14.3	15.6	17.1
Assumption no. 2 (a slow but steady increase of participation rates for 10 years)	14.3	17.2	18.7

Note: Data derived from U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 704, "Projections of the Population of the United States: 1977 to 2050" (Washington, D.C.: U.S. Government Printing Office, 1977); and Paul Flaim and Howard Fullerton, "Labor-Force Projections to 1990," *Monthly Labor Review*, December 1978, pp. 25–35.

to the firm. An employer may, therefore, wish to evaluate not only the demographics of his or her own work force, but also the age characteristics of various departments, divisions, or occupational groups and the intentions, plans, and preferences of older employees concerning extended working life and retirement.

NOTES

1. "Retirement Policies and Programs." ASPA-BNA Survey No. 39, January 24, 1980 (Washington, D.C.: Bureau of National Affairs, Inc., 1980).
2. James Schulz illustrated that while complete removal of the earnings test would primarily benefit the high-income elderly, significant liberalization of the test could occur without this distributional effect. James Schulz, "Liberalizing the Social Security Retirement Test," *Journal of Gerontology*, March 1978, pp. 262-68.
3. See Clark and McDermed, *op. cit.* for a comprehensive analysis of the effect of inflation on pension benefits.
4. For a highly optimistic assessment of future health advances, see Harold Sheppard and Sara Rix, *The Graying of Working America* (New York: Free Press, 1977).
5. U.S. Bureau of Census, *Current Population Reports*, Special Studies, Series P-23, No. 59, "Demographic Aspects of Aging and the Older Population in the United States" (Washington, D.C.: U.S. Government Printing Office, 1976), p. 50.

Part II
Age-Neutral Personnel Policies for a Changing Work Force

Introduction to Part II: Age-Neutral Personnel Policies for a Changing Work Force

Regardless of whether labor-force participation rates go up or down, employers in the 1980s will have millions of older workers on their payrolls. They will want to deal with those workers in ways that enhance both productivity and the quality of working life. That will necessitate rethinking and reshaping present policies and practices with a view to making the workplace better, not for older workers alone, but for the entire work force.

Some of the conditions that will face employers as they review the role of older workers in the coming years can be predicted with confidence:

- People will live longer and retain their vigor into later life.
- Inflation will continue at levels similar to those of the 1970s, increasing the economic need to work.
- A large proportion of older people will be single, living alone, and eager for the companionship and the social interaction available in work organizations.
- The age of mandatory retirement may remain at 70, rise, or be abolished.
- The number of young people available for employment will drop sharply.
- More objective knowledge of older workers' capabilities will spread and gradually displace current outdated stereotypes.

These factors, in combination, favor the prolongation of working life. By and large, employers are receptive to moving with the trends and new social expectations, and they are searching for intelligent answers. Their responses will be compatible with diverse needs: their own needs for productivity and profit, workers' economic needs and life-styles, the requirements of law, and specific needs for efficient personnel practices.

In the chapters that follow, we recommend a wide range of constructive employer responses, in varying degrees of detail. Underlying the individual recommendations are a few basic perspectives:

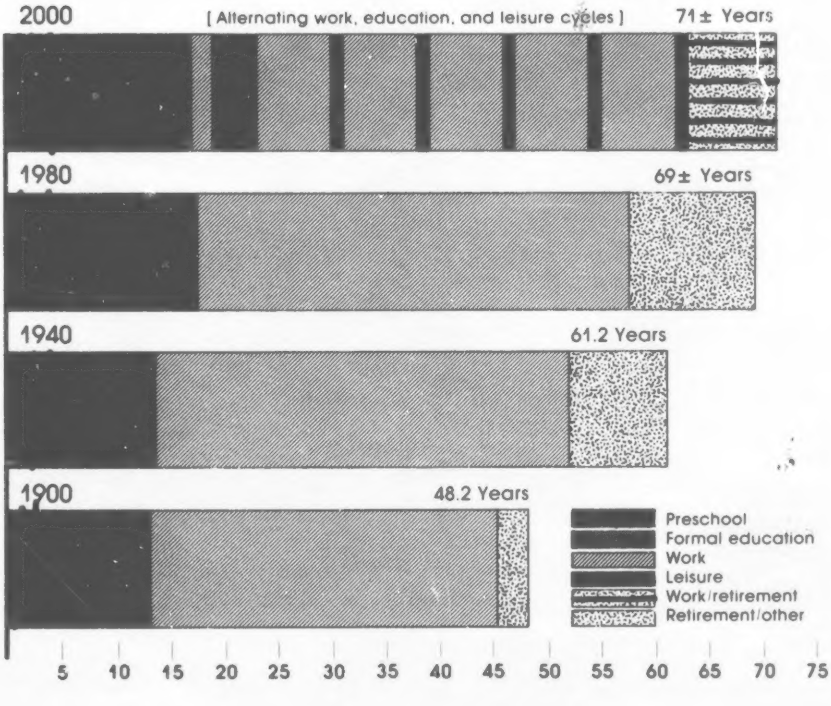
- All perceptions of age should be increased by ten years. A 50-year-old of today should be viewed as the counterpart of a 40-year-old of 1950.
- In the absence of specific contrary indications, it should be assumed that an older employee can and will remain productive to age 70. A healthy 50-year-old has 20 years of potential active career ahead.
- Chronological age is an unreliable criterion by which to judge the value of an employee. Good performance is good performance and bad performance is bad performance whether the worker in question is 25 or 65.
- As far as possible, policies should be age neutral. The older worker should be free to make choices between working or retiring and between working full time or part time, within reasonable limits set by employer policies. The older worker who elects to continue working should have access to career opportunities or options consistent with his or her aspirations, abilities, and potential.

The chapters in this section apply these perspectives to the four categories of personnel policy of greatest moment to older workers: hiring and separation, pay and benefits, assessing and counseling, and training and development.

Most of the cases cited in these chapters are discussed at greater length in *Young Programs for Older Workers* by Beverly Jacobson (New York: Van Nostrand Reinhold, 1980), the casebook which is a companion volume to this report.

LIFE CYCLES

Between 1900 and 1980 the life expectancy of Americans at birth increased more than 40 percent. Working life has lengthened, but so have the years of education and retirement. The next 20 years will bring further increases. However, instead of allocating education to youth, work to the middle years, and retirement/leisure to old age, Americans will intersperse periods of education and periods of retirement/leisure at several junctures in the course of one or more careers.



5 / Hiring and Separation

The extension of working life affects every aspect of employer-employee relations. Most basic among these are the "threshold" decisions: hiring and separation, including early retirement as a means of controlling the size of the work force.

De Facto Hiring Barriers

Hiring is the employment area in which older workers experience the most subtle and painful discrimination. They find it much more difficult to enter or reenter a firm than to obtain equality of treatment in personnel policies and practices after gaining admission. Many companies treat older applicants as if they were seeking membership in an exclusive country club with certain unwritten rules, the subtly applied barrier in this case being age.

Companies *believe* that they hire on the basis of (1) their job needs in relation to production goals, and (2) the applicant's ability to qualify for specific jobs in competition with other job seekers. Personnel departments are instructed not to consider the age, race, sex, or ethnicity of the applicant, and almost every company has written directives to comply with federal and state equal employment opportunity (EEO) statutes. Thus, formal hiring systems seem to assure that older workers will have as fair a crack at a job as other individuals.

But formal systems are often at odds with operational, *de facto* systems. Personnel officers and line managers, consciously or unconsciously, view older job seekers with disfavor because of these concerns:

- Can the older applicant handle the job? Can he or she meet the physical requirements of the job? Can he or she "fit in" with the work system?

- Why is this older individual seeking employment? Could it be that the applicant's previous work record was unsatisfactory?
- Will the salary requirements of the older worker be too high? It may be cheaper, therefore, to hire a younger applicant.
- Will the older applicant be a heavier expense for the employee benefits system?
- Is the older applicant "overqualified?"

It is not that these questions are irrelevant, but rather that managers and personnel officers, instead of checking the facts in each case, assume the answers will be unfavorable for anyone above a certain age. So, while most companies do not initiate policies that exclude hiring older workers, it remains true that people over 45, and particularly over 55, often have grave difficulty in gaining new employment.

Age-Neutral Hiring

It is important, in considering job applicants, to maintain an age-neutral stance, that is, to make decisions that neither favor nor injure individuals on the basis of age alone.

recommendation 1

Firms should review their personnel policies to ensure that they are consonant with a working-life potential which has been extended by five to ten years. Because of the extension of working life, hiring decisions about people 50 and over should be made in terms of personnel practices which formerly applied to people under age 45.

When employers do make special efforts to recruit people over 45 years old, they typically hire them for lower-skilled jobs. A few innovative firms, however, have had to recruit older workers in professional, managerial, and technical jobs because of skill shortages and have been pleasantly surprised by their excellent performance.

The following firms have made a special effort to employ workers over age 45, many of them in professional and other high-level positions:

– Pennsylvania Power and Light Company, a private utility, operates six power plants and five division service centers in the eastern part of the state. In the last ten years it has hired 2,500 new employees, most of them young, entry-level workers. The average age of the work force is 30. However, of the 50 engineers hired in 1978-1979, ten were over 40 years old. All were employed at or above the level of project engineer, with annual salaries of $25,000 and up. They are group leaders for major products involving expenditures ranging from $100,000 to $1 million.

– Aerospace Corporation, a nonprofit organization in Los Angeles, established in 1960 by the U.S. Air Force, employs a highly sophisticated staff of 3,500 people, half of whom are management and technical personnel. The average age of the work force is 46; the average age of the 200 new hires in science and engineering in 1978 was 41. The company prefers experienced, outside professionals to recent doctoral graduates. Because skill is the single hiring criterion, the firm employs people in all age groups, including those over 55 and even over 65.

– Evans Products is a conglomerate with 16,000 employees nationwide, located in 400 virtually autonomous work sites. These units make and lease railroad cars, manufacture custom homes and components, conduct lumbering operations, and maintain retail outlets for do-it-yourself building supplies. Headquarters in Portland, Oregon, has a staff of 250.

Evans hires workers regardless of age. At its Harbor Mill plant in Aberdeen, Washington, where plywood siding is manufactured, 15 percent of new hires in 1979 were over 40. At the Corvallis plant, 85 miles south of Portland, workers over 40 are routinely hired for the manufacture of hardboard, glass walls, and battery separators. Of 20 machinists hired in 1979, eight were over 40. Evans also hires annuitants for temporary projects, especially in construction jobs, or for major maintenance work.

– Kuempel Chime Clock Works, in Excelsior, Minnesota, employs 20 workers, and all are over the age of 50–with one exception, the firm's secretary-treasurer, a granddaughter of the founder. The firm's oldest employee, a skilled craftsman who works on brass pendulums, is now 92. He retired as a self-employed auto mechanic in 1957 and has worked at Kuempel ever since. The firm's history of hiring part-time workers and its policy of allowing employees to schedule their own time make older workers feel at home. Many of the firm's 20 workers have simply "come through the door," having heard that Kuempel hires people regardless of age.

– Bankers Life & Casualty Company, in Chicago, has eschewed mandatory retirement for over 30 years. This practice was instituted by the founder of the company, John D. MacArthur, when in his early forties; he remained active in the company until age 81. Bankers Life has not only made special efforts to retain older employees, it also has made a point of hiring new people over age 65 to start jobs.

– Texas Refinery, in Fort Worth, depends upon a nationwide sales force of 1,200 to 1,500 people, working on commission, to sell lubricants and protective coatings. Nearly 10 percent are over age 60; more than 1,000 are over age 40; many are mandatory retirees of other companies. After receiving basic training at company expense, employees create their own work patterns. Positions with the company are widely advertised and are open to people of any age, but the more mature tend to do best as trainees. For the two-thirds of the sales force over age 40, the company emphasizes that clients respect their general level of experience, confidence, patience, and commitment to what they are promoting. According to the firm, salespeople of 60, 65, or even 70 are especially effective, because they gain the confidence of potential customers.

recommendation 2

Personnel managers and company officials should consider the following recommendations for more effective hiring of older workers:

a. Organizations should confront directly the issue of whether older applicants can do the job. If there are performance requirements on which age might have a bearing, a direct and sharp focus on those elements makes it easier to consider whether job applicants, particularly older ones, are suitable. Applicants who receive fair consideration but still do not meet job requirements should be rejected without regard to age. According to exceptions in the law, an employer who wishes to introduce age factors as a disqualifier may do so where age can be shown to be an occupational qualification. But the burden of proving that age, of itself, disqualified the job seeker lies entirely on the employer.

b. Management should be sensitized to the issues of age and employment in hiring and retention. Top-line management should become better acquainted with the needs of present older workers, their abilities and limitations, and how they fit into the company's work force. A closer look may be needed not only at written company statements on EEO policy, but also at how many older workers are actually employed. Company-wide hiring rates for workers over ages 45, 50 and, now, over 60 will provide insights into the firm's recruitment, selection, and placement practices. *Where possible, a broad and equitable age distribution across company skill lines is best.*

Companies must, of course, continue to recruit and hire recent college or professional school graduates with new and updated technological skills. But that is not a reason for not hiring qualified older technicians or professionals, as well. If a company has too many older workers in certain areas, it may encounter future skills replacement problems as attrition, early retirement, and normal retirement take their toll. A shortage of older workers may signify a technologically young firm or industry, but it may also be a sign of age discrimination.

c. Employers should try to design a variety of jobs and work arrangements for older people. Full-time jobs which are too strenuous for older workers can often be brought within the capability of older job applicants by means of different kinds of job structures and work schedules —such as part-time work, job sharing, flexible time arrangements, or flexitime.

d. Firms should seek to increase the number of part-time jobs in their work force. Not only are part-time and seasonal jobs popular with older people, they are also beneficial for many types of employers, particularly in areas like sales and banking. Part-time work may also present opportunities to rehire a firm's retirees in a broad variety of jobs or tasks.

e. Companies should not be afraid not to hire the older worker. Fair labor standards and civil rights laws allow employers to refuse to hire a worker, provided there is good cause. Although hiring procedures must be free of bias, a company helps neither itself nor job applicants by hiring them for jobs they cannot perform well.

f. Companies should use the services of outside employment agencies that specialize in the placement of older workers to help solve hiring problems. These agencies can also provide insights, counseling, and access to employers with experience in hiring older people. Among the more prominent are: Over 60 Counseling and Employment Service, Chevy Chase, Maryland; Senior Personnel Employment Committee, White Plains, New York; and Retirement Jobs, Inc., Palo Alto, California. [1] Operation ABLE (Ability Based on Long Experience), in Chicago, is a broker for a number of regional employment agencies.

A word of caution: Job testing does not ensure age neutrality, even when it tries to be "job related," like preemployment physicals. While the term "job related" uses good-faith words, its meaning is broad and often difficult to quantify. Testing is probably most useful when job requirements can be clearly stated and include reasonable standards of quantifiable minimum performance.

By law, firms have to make "reasonable accommodation" for handicapped job seekers. They should consider taking the same approach voluntarily toward older applicants, particularly if restructured or part-time jobs can be provided.

Firing as a Last Resort

Firing should be the last resort of employers, particularly when the objective is to restore the age balance of the work force.

If the employee is over 50, or even over 40, firing is more traumatic than almost any other employment action and far more painful and costly to the individual than, say, involuntary early retirement, which at least cushions the subsequent job search. There is abundant evidence, for instance, that an older worker who has been fired has extraordinary difficulty in finding a reasonably comparable job elsewhere. To compound the worker's difficulties, the 50- or 55-year-old is usually at a critical stage of life when there are likely to be steep expenses, such as children in college and a mortgage to pay.

recommendation 3

Better planning and earlier anticipation of needs should be adopted to enable employers to avoid terminating older workers. Indeed, with the extension of working life, prudence dictates that firing decisions be made as early as feasible in the individual's career. If an employee shows early on that he or she will not perform up to snuff, a decision to fire should not be postponed for 10 to 15 years. Better assessment practices will assist employers in making the decision to terminate at an earlier date.

As stereotypic thinking about older workers subsides, firings of older people should occur less often. Indeed, it will become increasingly awkward or difficult to separate older workers, not least because of concerns about age discrimination. In order to avoid the dilemma of firing an older worker, employers should not only plan to make their firing decisions at an earlier date, but should also pay more attention to alternative responses to extended working life.

Reductions in Force

Reductions in force (RIFs) are particularly susceptible to age distortion. When older people are stereotyped as less aggressive, less ambitious, and less concerned with work achievement, it is natural for managers to decide, "If we have to lay people off, let's begin by getting rid of older workers who are, after all, less productive." The stereotype gains strength from the fact that, in growing work organizations, supervisors and middle managers tend to be younger, more vigorous, and somewhat ill at ease with older workers because of the age gap.

The Congress is currently considering legislation to provide increased protection to workers against plant closures, relocations, and layoffs attributable to changes in production and distribution. Restrictive legislation that imposes costly burdens upon employers may emerge unless American industrial leaders adopt more sensitive and progressive policies to moderate the shock of layoff and to strengthen job security. Therefore, in its own self-interest, industry should move quickly to take the initiative in this sensitive area.

recommendation 4

Management should inform supervisors that age is not an acceptable criterion for layoffs; the only dependable basis is performance appraisal based on sound information.

While an individual worker can rarely be certain that termination was due to age, a layoff with a considerable proportion of the victims in the same age range raises the specter of discrimination. Several cases in which this pattern is alleged have entered the federal courts. Among the major firms which have been sued for large-scale layoffs of older workers are: Phillips Petroleum Corporation (400-500 salesmen); Chessie System (300 employees); Standard Oil of California-Chevron (442 employees); and Pan American Airlines (400 professional and executive employees). Mass terminations by The Equitable Life Assurance Society of the United States—even though employees received generous severance payments, outplacement, and other assistance—have also evoked accusations. Most recently, Consolidated Edison Company of New York has been challenged.

A layoff is painful for everyone. For employers, it means having to dismiss many workers, temporarily or permanently, regardless of ability. For employees, including those not laid off, the dismissals constitute a threat to their economic security. For those on layoff, it means waiting for a callback, looking for another job, or withdrawing from the labor force.

One familiar way to accomplish an adjustment in work-force size or mix is normal attrition and induced early retirement (see the section on "early retirement" in this chapter). Since older and more senior employees are usually at higher pay levels, firms expect to reduce payroll costs substantially by concentrating layoffs among older workers. Their expectations are often disappointed.

The unseen cost of a forced layoff is its impact on those who are not fired. They take it as a breach of contract, believing that "there, but for the grace of God, go I." Because employees see themselves as potential "older workers," loyalty to the firm, performance, commitment, and motivation may all be impaired.

Thus, the manner in which a firm handles layoffs and terminations, whether of individual employees or of considerable groups, matters more than is generally realized.

recommendation 5

Layoffs and terminations should be governed by the following policies:

a. Separation should be related clearly to performance, job descriptions, performance criteria, and agreed-upon procedures for rating and ranking employees.

b. Retirement incentives, such as bonuses, absorption of discounts for age, severance payments, and extended notice, should combine economic attraction and genuine choice.

c. Age discrimination should be barred from the criteria, to avoid legal or class-action suits and to ensure effective corporate social responsibility.

d. Layoffs should be avoided to the maximum extent by advance planning and greater reliance upon normal attrition linked to an employment freeze.

e. Outplacement services should become a final alternative to outright dismissal and should be extended to all occupational groups and all age groups.

f. Work sharing, in combination with unemployment insurance, should be an alternative to cyclical or seasonal layoffs.

Work sharing is the practice of laying off whole groups of employees for relatively short periods of time in order not to impose lengthy or permanent hardship on a much smaller number. Work sharing (not to be confused with job sharing, in which two or more people, each working part time, share the same job) is effective only when voluntary. It must be carried out with union approval or, in the absence of a union, with the consensus of employees. Workers find work sharing more acceptable when provisions are made for unemployment insurance to relieve part of the wage loss. One or two states have arranged this informally. California recently amended its laws to do so in a two-year experiment.

Three cases of work sharing are described in *Training and Jobs Programs in Action* [2]:

– During a business recession, the Chicopee Manufacturing Company, Johnson & Johnson's textile division, applied alternative work schedules, including a four-day workweek, three weeks working and one week on layoff, and one week working and one week on layoff. The program successfully prevented layoffs, and the company later returned all its employees to full-time work.

– Inland Steel in Chicago has applied work sharing to avoid layoffs in several recessions. When business turns down, the company stops hiring. Next, it reduces the workweek to a four-day schedule for groups of employees on a two-week rotating basis. Only as a last resort does it turn to layoffs. During the worst week of the downturn in the fall of 1975, Inland had 1,932 employees on a four-day work schedule and 569 on layoff, out of a total of 18,000 hourly employees eligible for the four-day workweek. Inland points out some of the advantages of work sharing: it keeps crews together; it spreads the impact of recession; and even with a four-day workweek, the high steel industry wages enable employees to earn a decent income. Under the steel industry's contract with the United Steelworkers, companies may use the four-day workweek without paying supplemental unemployment benefits.

– In 1975, the New York Telephone Company, a subsidiary of AT&T, offered its union a choice between placing 2,000 of its 5,800 telephone operators on a reduced workweek, or letting 400 of them go. The union took the work-sharing proposal.

Early Retirement as a Work-Force Tool

Early retirement has a great advantage over other methods of separating older workers, because employers, employees, and unions all approve of it. Each group approves for its own (not always soundly based) reasons.

Management Objectives. The use of pension benefits as a means of separating employees from the work force is fairly recent and seemingly at variance with their original function. The employer's fundamental motivation for offering such costly benefits as the pension plan was to procure long-term *continuity* of the employment contract. Once having invested in the training and development of an employee, the organization had an interest in amortizing that investment by ensuring employee loyalty and commitment over the longest possible career span.

Employees have pursued their concomitant interests by seeking to maximize benefits under the pension plan, first, by pressing for vesting rights after a minimum number of years of service (10 or 15 years under present law); second, by maximizing their salary and service in order to reach the full retirement benefit level; and third, by seeking pensions which represent a higher replacement value as a percent of final pay. More recently—and increasingly—employees are anxious for some form of pension protection against the inroads of inflation.

These complementary motivations cement the employment relationship. Even with comparatively younger employees, pension rights work as an important psychological and economic determinant of career commitment to the employer. As workers mature and pass the vesting point, the contingent nature of the benefit and its dependence on final-five- or final-three-year average salaries make them feel "locked in" to the organization. Middle-age and long-service personnel are often mesmerized by the pension potential; even when they become marginally productive, they are unwilling or economically unable to leave the firm.

Employers with well-funded, long-standing pension programs have discovered in the past few decades that the pension fund could serve another unintended purpose. The fund has become an economic resource in management's overall work-force policy, permitting the organization to separate employees earlier in their careers than was orginally conceived in the pension plan. This concept, called "early retirement," means retirement at an age younger than the specified "normal" retirement age.

In most plans today normal retirement age is 65. However, in concert with the reduction of Social Security pension eligibility to age 62, many companies have lowered the normal retirement age to 62. Some more progressive and more financially capable companies have lowered normal retirement to age 60. The public sector—state, local, and federal—has set normal retirement ages much lower, when combined with service requirements. In the federal government, for example, the normal retirement is at age 55, with 30 years' service.

"Normal" in these circumstances means that the full pension benefit is paid, without actuarial discount. Thus, an employee who retires at age 60 in a plan where the normal retirement age is 65 draws a pension for five years in advance of the normal age. This involves a substantial added cost to the employer, which usually has to be offset by discounting the pension value on an actuarial scale. This procedure reduces the dollar value of the pension, making it infeasible or less attractive in many cases for the employee to choose early retirement.

Employers, therefore, have invented programs to absorb all or part of the actuarial discount. Total or substantial absorption of the discount acts as a strong incentive, telling the employee, "You can terminate your employment so many years earlier than 'normal' and still get essentially the same, or almost the same, annual pension benefit you would have received had you continued to work all the additional years required to reach the normal age."

The apparently acceptable cost of early-retirement programs has made them an attractive means of readjusting the size of the work force. Since a large pension fund is available, readjustment does not require special front-end funding or represent immediate cost. Where cost/benefit justification is required, managements frequently subtract the projected total salary and benefit costs (plus estimated inflation) for the remaining years of employment as an offset against the additional pension cost. The arithmetic usually produces a net short-term saving.

Early-retirement programs are popular with management as well, because they preserve the morale of other workers, who receive the clear signal that they will not be fired or displaced before they reach that safety zone. Early retirement, therefore, is a more dignified form of separation and more consonant with the implicit guarantee of employment security. Most important of all, an economic transfer of lifetime income takes place for retiring employees (and their dependents), converting them from employees to annuitants, rather than displacing them or rupturing their life plans.

Early retirement makes employees partners in the process of career termination. Often employees opt for the program because it is offered for a limited time and contains such a sweetener. In other instances they cooperate with pressures to leave by this route, since the alternatives offered by continued employment are painted in bleak terms.

Lastly, managers prefer early retirement to other forms of manpower reduction because it is less stressful. It does not load the manager or supervisor with the guilt that attends a large-scale displacement or layoff.

recommendation 6

In the light of changing demographics, the aging of the work force, the decline in mortality rates, and the increased longevity and vigor of people, employers should take a hard new look at the cost/benefits of early retirement plans. They should analyze real *net* savings rather than hypothetical gross savings. The costs of retaining the worker versus the cost of annual pension payments for each of the "early years," as well as the cost of sweeteners in the form of severance pay or discount absorption, deserve closer attention. The employer should also consider to what extent the early retirees will be replaced by newly hired or internally promoted employees who may perform at the same or a lower level of effectiveness. It is wishful to assume that a younger worker is, by virtue of age alone, technically more competent, better educated, and more highly motivated than an older worker with longer experience, more service, and a deeper attachment to the organization. *Sophisticated analysis may disclose that the attractions of early retirement are outweighed by its costs.*

Union Objectives. Labor unions approach pensions from a somewhat different perspective than the employer. Their members want, first, to secure a decent pension in the collective contract and, then, to improve the pension program. Unions are, thus, in a constant race to improve both wages and benefits and, since the money comes out of a single pot, have to trade off gains in one against gains in the other.

Since pensions are among the most important deferred contingent benefits in the collectively bargained compensation package, unions seek to enrich the formula, that is, to make the final pension benefit a higher percentage of pay. And since many blue-collar workers—who feel the pressure of their jobs and are depressed by the hours, working conditions, physical demands, and boredom—are keenly interested in better and earlier retirement, unions fight for earlier vesting and pension eligibility, with pensions geared to years of service instead of age, or to a combination of service and age. These goals are likely to remain in the forefront of union thinking.

In a multiemployer pension plan, the union has a fiduciary responsibility for the pension. It collects funds from the employer, handles their investment or management, and administers the pension fund in all respects. The union has prime responsibility for providing the resources that give fiscal reality to constituents' early-retirement demands. Here union officials are ambivalent; they see the pension fund as a responsibility, and the disbursement of pensions as a drain on the fund.

At this stage of labor relations in the United States, the extension of working life is not a high-priority objective of unions. There is no apparent current membership demand to work beyond normal retirement age. High and persistent inflation may change this in the 1980s, but unionized employees right now are more interested in receiving better pensions faster than in extending an arduous and stressful working life. The UAW's early slogan of "30 and out" still has strong appeal, as witness the union's recent three-year agreement with General Motors. Substantial pension improvement for annuitants is provided by this agreement, an indication that younger workers are willing to trade off higher current pay for better and stronger pensions.

Broadly speaking, then, the "have" labor unions in high-wage industries and their constituents are in the market for early-retirement schemes. Well-situated employers with long-term pension funds can continue to open this option as a means of effecting large work-force reductions.

Early retirement serves another major philosophical goal of the labor movement: to provide employment for the greatest number of members as fairly as possible. Better and earlier pensions are a form of equitable work sharing, for as older workers leave, jobs open for younger workers. This meets the needs of both groups, particularly in periods when economic growth is slow, unemployment is high, and/or management is substituting capital for labor through technological investment.

Employee Objectives. Employees fortunate enough to have a long career with one employer, during which they accumulate rights to an attractive pension, are motivated to fulfill those rights. To them the pension is a deferred contingent benefit to provide old age security for themselves and their dependents. Despite remarkable improvements in the Social Security system, the private pension still makes a critical difference in the standard of life an individual can maintain after an active working career. Few employees are prepared to sacrifice that dream by breaking the employment contract too early. At the same time, we must recognize that less than half of all employees in the United States are covered by private pensions, and that many of these will never draw a benefit because normal attrition and turnover rates in a free-market society restrict vesting.

Participants in good pension plans try to stick it out to the normal retirement age, usually 65. When the employer agrees to lower the normal retirement age, they readily revise their expectations and accept the prospect of retiring earlier.

Only a minority of employees in American industry have resisted mandatory early retirement, especially when they knew they would receive pensions. Objective studies have shown that, although adjustment to early retirement varies widely, people with adequate pensions adjust a lot better than those who depend entirely on Social Security.

Early retirement programs do cause friction and personnel problems when the firm gives the individuals little choice but to leave with a so-called golden (in some cases, it may feel more like a leaden) handshake. By and large, however, employees have preferred early retirement to any other form of separation. As with union workers, nonunion blue-collar and low-income employees in onerous occupations consider early retirement a plum to be relished, not a medicine to be swallowed.

Moreover, many employees have taken early retirement as a means of getting into a new line of work from which they cannot be dislodged by mandatory retirement. With the change in law governing mandatory retirement, such decisions may become less frequent, except where the existing job is strongly disliked.

The ability to retire "early" is a function of age, money, and family responsibilities. Studies show that early options are more acceptable in the 60-65 cohort than at lower ages. In voluntary programs, employee interest declines as age decreases, principally because of family responsibilities and the fact that children may be completing their education. At that stage the breadwinner must produce full earnings, because the family cannot sustain a sharp drop in income.

Government Policy. Government policies regarding early retirement have a heavy Depression Era bias. The shock of the 1930s stimulated many of the social insurance programs, including Social Security, which evolved as a response to a perceived labor "surplus." The law created disincentives for older people to continue working, based on the theory that the jobs they left would be distributed to the younger generations. The philosophy persists today, although there have been modest reforms to reduce the tax penalty on persons over age 70.

The advancement of the mandatory retirement age to 70 under the Age Discrimination in Employment Act (ADEA) was the first public reaction to changing demographics and the demands of older people's lobbies for the right to work. Yet we face a delicate balance in defining the most beneficial employment policy for the 1980s. The law can order an end to age discrimination in employment, but practices change slowly. Further, the right to work does not guarantee that a job will be available.

Recent amendments to the Social Security Act have somewhat improved the incentives to work after 65. However, persons who continue working also continue to pay full taxes to the system, even though they forego benefits. The law does not yet fully encourage the extension of working life.

If Congress makes a clear decision in favor of extended working life, it will have to alter the Social Security Act further, with amendments that are either compulsory or incentive. One such compulsory change already proposed is to raise the age of eligibility to 67 or 68.

Since this change would erode an existing entitlement, it would draw bitter opposition from unions, older people, and Americans in general. Employers who want employees to retire early would also be opposed, because it would require them to pay two or three more years of bridging costs.

Incentive amendments, on the other hand, although slower to take effect, would find much wider acceptance. Congress could, for example, gradually liberalize the earnings test further than the present law contemplates, raise the bonus for deferring retirement to the point where actuarial savings are shared 50/50 between the fund and those who defer retirement, or waive the Social Security tax on both workers who continue beyond age 65 and their employers.

recommendation 7

We oppose proposals to raise the retirement age to 67, because they would adversely affect the early retirement option and could also harm normal retirement programs by adding two years of bridging costs. They would *also force many older unemployed people to apply for welfare payments and break the promise of retirement at age 65.*

Summary

- Although most employers try to live up to EEO requirements, personnel officers and line managers often view older job applicants, consciously or unconsciously, with disfavor. Hiring decisions about people aged 50 and over should be made in terms of personnel practices that formerly applied to those under age 45. Six examples are cited of companies that have adopted that approach.
- Firing decisions should be made as early in a career as possible. Because it is so difficult to be rehired, older workers should not be terminated except when no other alternative is available.
- Early retirement remains an attractive option to unions, employees, and employers—where a sufficient pension plan exists. As age discrimination laws bar mandatory early retirement, the programs will become more participative and more voluntary. They are unlikely to disappear, despite increased longevity, high inflation, or the desire to extend working life. However, they will require more "sweeteners," better advance planning, and some meaningful response to the troubling issue of pension erosion by inflation. Otherwise early retirement may become a luxury available only to affluent executives and an unattainable dream for the average American.

NOTES

1. Descriptions of these agencies are found in the following: David Robison and Richard A. Lacey, *A Guide for Employers: Toward Better Use of Older Workers* (Washington, D.C.: National Council on the Aging, Inc., 1979); and Marc Rosenblum and Harold L. Sheppard, *Jobs for Older Workers in U.S. Industry: Possibilities and Prospects.* Report to the U.S. Department of Commerce, Economic Development Administration, AIR 63600-9/30/77-FR. (Washington, D.C.: American Institutes for Research/ Center on Work and Aging, 1977).

2. David Robison, *Training and Jobs Programs in Action* (New York: Committee for Economic Development, in cooperation with Work in America Institute, Inc., 1978).

6 / Pay and Benefits

Employers are beginning to consider the impact of extended working life on the administration of salaries, pensions, insurance, and other fringe benefits. They are also finding new ways of maintaining the motivation of older employees without excessive cost. Company-sponsored thrift and savings plans, which show signs of increasing popularity, are a good example.

Salary Practices

The compensation policies of most large employers take the employee's age and position into account. Often, an individual who is a senior employee and high in the pay scale notices that pay increases become smaller and less frequent than before. The firm may stop offering participation in bonuses, stock options, or other plans.

These developments are not surprising, since most salary systems gear pay to age and years of service, as well as to performance. Thus, the typical salary curve shows a strong rise until the worker reaches the early fifties; then the curve tapers off or flattens.

Another reason that pay increases fall off with very long service is that employers make certain assumptions about older workers' careers. They may believe that an employee who reaches a certain age is much less likely to change jobs—or that the older worker tires easily, does not want to learn new skills or take new assignments, has obsolete knowledge, has pension and benefit rights which he or she does not want to give up, or is not attractive to other employers.

Pay increases may also become smaller and less frequent because some employers believe workers should never reach the maximum level of the pay range.

Firms have begun to look critically at these salary practices. They have observed that in a period of high inflation the pay maximum is not static, but dynamic. For example, today's maximum in a pay range may, three or four years hence, fall to the low point of the range. Moreover, if one accepts that older workers as a group are as efficient as any other age group, the slowdown in pay and benefits is hard to justify.

With the extension of mandatory retirement to age 70, employers are restudying pay policies for the extended period between ages 65 and 70. Full salary opportunity for merit recognition, service pay increases, and economic adjustments for inflation are "normal" practice, but employers question whether they should embrace employees who elect to extend their work life. Some employers fear that extending these benefits may be an incentive for older employees to stay on. They are, of course. But, on the other hand, a pay policy which deliberately freezes compensation at age 65 will ultimately lead to costly consequences: poor performance, interpersonal inequity, perceived discrimination, and, finally, legal action.

recommendation 8

Companies should reexamine pay and benefit policies in relation to the aging work force and the probable extension of working life, to ensure that senior employees are motivated to sustain productivity throughout their careers.

Pensions

Among benefits, the issue of pension adjustments will be particularly acute. As the UAW has already shown, unions will have to take the interests of their retirees more strongly into account in collective bargaining in the future. So will employers, current annuitants, and prospective annuitants.

Should the company allow continued participation in a pension plan for employees working after age 65? Under federal regulations, based on the 1978 amendments to the Age Discrimination in Employment Act (ADEA), defined benefit plans may disallow benefit accrual after the normal retirement age (usually 65). Newly hired workers over age 60 are free to enroll or not, as they choose, in a defined benefit plan.

These amendments give employees the option to extend working life by five years. Firms are now reviewing policies covering these added years of service. Some may decide to make certain age-related salary or benefit policies inapplicable to service after age 65, that is, to deny further advances in pay after 65. There is, of course, an interrelationship between pay and benefits, not only in the basic formula for determining pensions, but in whether workers over 65 can accrue additional pension benefits by working.

Exxon Corporation, after reviewing its pension policies in 1979, announced that its employees over the age of 65 would continue to accrue pension benefits as long as they worked. Thus, there would be no lessening of incentive to work despite increasing age.

The motivation of older workers is important to employers. Many employees are at the peak of their career during their sixties, and they are no less sensitive to motivation or demotivation than those in their forties or fifties.

Many firms will be trying to determine the true costs of a five-year extension of working life. After weighing the increase of salary and benefit costs for the employee who works beyond 65 against the reduction of pension payment because of fewer years in retirement, there is reason to believe that the net cost of maintaining workers during an extended working life is much less than the gross cost.

To illustrate: Assume that a good pension plan pays about half the value of salary, based on the highest three or five salary years. When workers extend their employment for five years beyond normal retirement, they forego five years of pension payments. The capital sum value is substantial. Over a period of five years, employees surrender the equivalent of two-and-a-half years of pay. Thus, by working full time instead of drawing a pension, the employee's *net* salary cost declines to about half the amount of pay drawn. Of course, benefit costs and pay increases are additional.

The illustration may not be typical; each company should work out its own appropriate equation. But in many cases, the net cost of maintaining workers during an extended working life would be much less than the gross cost. If so, the firm should reevaluate the inducements it offers for early retirement. It may benefit more by keeping the worker on the payroll than by paying an early retirement pension (see chapter 6, "Hiring and Separation").

Benefits Coverage Today

Under the 1978 amendments to the Age Discrimination in Employment Act, an older hiree cannot be denied participation in a *thrift, savings, or profit-sharing plan* if these are available to other workers. The general principle is that if a benefit is not, of itself, age related, an older worker cannot be excluded. On a *voluntary* basis, older workers may make larger contributions to a benefit plan if other workers have that option.

As for *health insurance,* prior to age 65 a worker must receive the same health coverage and related benefits that younger employees do. For the worker over 65, the employer may take advantage of Medicare and provide lower premiums. In any event, the combined coverage must be the same for the older as for the younger employee.

Employers who provide *life insurance* coverage must extend it to workers who stay on beyond 65. The firm may pay a lower benefit to older workers if there is a demonstrated cost justification based on higher risks, but it must pay the same level of insurance premium for all workers. However, older workers will probably need and receive lower benefits.

With regard to long-term *disability insurance,* the employer may use a five-year sliding scale. For example, coverage of workers disabled *prior* to age 60 may stop at age 65, when other government benefits become available. Coverage of those disabled after age 60 must be extended for the five-year period following disablement. Thus, the worker disabled at age 61 would be covered to age 66. The outer limit of coverage would be age 70, which is the limit of ADEA protection. The level of disability coverage may be reduced if cost justifications are demonstrated.

Vacations, sick leave, personal leave, or other benefits must be made available to the worker over 65 based on the same criteria that apply to all other employees. These benefits usually have more to do with service than with age. A 55-year-old worker with 30 years of service will be entitled to larger benefits than would a recently hired 55-year-old.

Recent surveys indicate that firms are responding positively to the requirements of the 1978 law and the federal regulations adopted under the law. There are additional steps that they can take.

recommendation 9

It is recommended that employers accept the operating principle that if employees stay past age 65, they should have the same benefits such as health coverage, vacations, sick leave, and personal leave that other employees have.

Benefits Issues

Life insurance costs for workers over 65 are not very different from those for workers under 65. Self-insured employers seem to be maintaining the same level of coverage for workers over 65 as for others. Since the highest proportion of worker mortality occurs prior to age 65 rather than afterwards, no significant cost factors justify penalizing older workers.

The cost issue is raised by major insurance carriers, which, in calculating premiums for insurance benefits, confuse the able, older worker with the retired population as a whole. It is not the older employee who raises costs; it is the retired or disabled individual who is out of the labor force. Employers should, therefore, consider carefully and, if necessary, challenge premium demands for older workers.

recommendation 10

Efforts should be made to devise more flexible packages of benefits, compatible with law, company practice, and employee needs. Older workers are free to modify some benefits as, for example, major medical and hospitalization, when they become eligible for Medicare. They should be permitted to modify others as well. For instance, although obstetric benefits will be of minor interest to the worker over 65, geriatric care may be very attractive. For employees who have already accumulated pensions and some benefits, the employer may find it desirable to evolve a cafeteria-style package.

It may also be desirable to design varying levels of benefits for those who choose part-time work after 65, since many work primarily for income and personal reasons, rather than for fringe benefits.

Pensions are a special problem when an employer creates two part-time jobs by splitting one 40-hour job—a form of job sharing—but is unwilling to pay full benefits to each member of the pair. The preferred solution is to prorate the benefits according to the number of hours worked, as in the federal government, where workers accumulate service by hours instead of years.

In the San Francisco Unified School District, an innovative scheme facilitates part-time work for older teachers while opening up more job opportunities for younger teachers. Currently, the average age for schoolteachers in California is 53. The state faced the problem of how to rebalance its schoolteacher work force and bring in enough younger teachers to avoid crisis when a mass of teachers retire a decade from now. Older teachers were unwilling to work short hours, because that would reduce their pensions.

The solution has been a plan enabling older teachers to work part time without losing full-time pension credits. The state has calculated that the cost of this plan will be less than the costs and disruptions later on, when large numbers of young teachers would have to be hired and absorbed into school systems. Moreover, for each two older teachers who work half time, the state will now be able to hire one young full-time teacher. The schools will retain the services of the most experienced teachers while adding young teachers and, in effect, rebalancing the entire work force. More experimentation of this type should be encouraged, using incentives to permit older workers to engage in part-time work in exchange for more flexibility in employment of younger people.

Many companies have been reluctant, because of cost, to extend certain benefits, particularly medical care, to annuitants and retirees. Their analysis overlooks the potential benefits of having the firm's existing work force know they will retain a margin of safety whenever circumstances compel them to leave.

Take the case of a major department store. Often, when a senior person becomes blocked in the organization, voluntary early retirement is mutually advantageous. In this firm several senior executives, who would otherwise have taken that path, refused solely because they had serious preexisting medical problems and would have had to give up all benefits coverage, particularly medical care.

A major oil company, on the other hand, extends to annuitants all the benefits they held while in its employ. This umbrella includes life insurance, and medical coverage until the person becomes eligible for Medicare. It also grants partial pension coverage to a widow or widower.

By extending benefits coverage and medical care to the postretirement period, companies gain flexibility in work-force policy. Employees have more freedom to leave the organization or change to a reduced work schedule, and the company can deal more forthrightly with those who ought to leave the firm.

Thrift and Savings Plans

Company-sponsored thrift and savings plans should grow in popularity in the near future. According to a study by Bankers Trust Company of New York in 1977, they combine at low cost a number of very attractive, multipurpose features: voluntary participation; tax-sheltered income; long-term employee savings, enhanced by employer-matching; investment options, including the opportunity to invest in company stock; withdrawal and loan provisions which can be applied to the education, housing, or capital needs of employees; and, over the long term, a second layer of pension protection. In view of these advantages, the federal government should consider tax incentives, as described below, to encourage the growth of incentive and savings plans.

Savings plans, combining contributions by employers and employees, help older people and society as a whole counter the threat of high inflation. It should be borne in mind that less than half of all American workers are covered by private pensions. Whether as a second layer on the pension plan or as a single plan, a savings plan becomes a partial cushion against inflation.

Savings plans could come close to being a second level of pensions, with accumulation and reinvestment of savings and company stock, tax-sheltered during the accumulation period. For the typical American family, lifetime savings are only about $2,000, too little for protection against inflation. Workers need to accumulate savings in small increments over long periods of time. This is what a savings plan does well. Also a plan could offer workers low-interest loans for housing or education without disturbing the accumulation of savings.

Tax treatment of thrift and savings plans is already favorable. The employer's contributions are tax-sheltered for the life of the savings plan. The employee's contributions, since they are tax-paid, incur no tax when they are withdrawn. And employee contributions may be withdrawn at any time to meet short-term economic needs.

recommendation 11

We recommend that Congress create added incentives to foster employer thrift and savings plans by granting tax exemption to employee contributions. In fact, several bills have recently been introduced that would allow employees to take a tax deduction for contributions to an employer-sponsored IRA plan. This would encourage savings and capital accumulation, since most funds are invested in common stocks and capital projects. *With national savings rates at an all-time low, the United States needs tax policies that create new incentives to save.* From society's point of view, a greater flow of savings into investment is the source of tomorrow's jobs and higher productivity. Moreover, dividends and earnings from these investments are usually reinvested, so that the tax treatment of worker contributions during the life of the plan should be the same as that of employer contributions, that is, tax-sheltered. The government recaptures revenue when distribution occurs.

It would also be desirable if private savings plans followed the example of pension plans in the not-for-profit sector, where tax law allows a portion of salary to be contributed totally tax-free. For example, 10 percent of an employee's salary might be contributed tax-free by the firm, and another 10 percent tax-free by the worker.

The United States government is already a silent partner in existing savings plans: It foregoes tax revenues at the rate of almost 50 percent for larger companies, whose contributions are deducted as a business expense. If Uncle Sam is willing to be a partner with the corporation, why not equally with the individual worker? This incentive to save would also strengthen the incentive to work.

Savings Portability. Workers' claims to the economic value of their own and their employers' contributions should be portable. Normally, employees leaving a firm must withdraw their accumulated savings, either as cash or as a deferred annuity. Taking the value of the savings from one company to another is not permitted.

recommendation 12

We recommend the amendment of existing legislation, or a ruling from the Treasury, which would enable a worker to transfer a vested thrift or savings account to an individual retirement account, thus creating a modest form of pension portability without changing pension laws. Inter-employer transfer arrangements should be encouraged along the lines of the arrangements which permit banks to transfer trust funds and investments between different plans or, in the absence of a receiving plan, to roll over the account into an IRA custodial account.

Portability of savings plans would increase the mobility of older people with long years of service, to their own benefit and that of employers.

Summary

- Salary increases for older employees who are high in the pay scale tend to become smaller and less frequent. Since older workers as a group are as efficient as any other age group, salary curves should be redrawn in the light of the probable extension of working life.
- After weighing the increase of salary and benefit costs of the employee who works beyond age 65 against the reduction of pension payments because of fewer years in retirement, the net cost of keeping him or her on the payroll during an extended working life may be much less than the gross cost.
- A more flexible approach to benefit coverage, made possible by the fact that older workers have different needs and goals than younger ones, can enhance management's flexibility in work-force policy.
- Employers and government (through more favorable tax treatment) should encourage the spread of thrift and savings plans. They help protect workers against inflation while increasing the essential flow of savings into investment.

7 / Assessing and Counseling

Of the many kinds of assessing and counseling carried on by employers, three have particular relevance for older workers: performance appraisal, career development planning, and preretirement counseling.

We do not recommend that employers set up special programs for older workers only, which would be seen as discriminatory. Programs should be applicable to all employees, at all stages of their careers. At present, performance appraisal and career development systems tend to ignore older workers, while preretirement counseling overlooks the fact that planning must begin long before retirement.

Performance Appraisal

The discussion that follows is a very limited treatment of a complex subject and is confined to those elements that most strongly affect the older worker. We believe, however, that whatever is done to make performance appraisal more valuable to older workers will equally benefit all employees.

recommendation 13

Performance appraisal should receive critical and effective priority in personnel management, not only because of the aging of the work force and the extension of working life, but because of union pressures, the disclosure rights granted by the Freedom of Information Act, the growing emphasis on communication and participation in employee relations, demands for equal employment opportunity, and the endemic reluctance of managers to evaluate subordinates.

The Freedom of Information Act and the 1978 amendments to the Age Discrimination in Employment Act have created a legal mandate for performance evaluation. Threats of class-action suits under these acts and a new awareness of age discrimination have also brought home to employers the necessity for effective performance appraisal systems. In addition, there are new standards and values concerning privacy and employees' rights to see their personnel files, and new social dictates concerning employees' rights to be informed about and have a say in decisions affecting them. These factors should be seen not solely as threats or pressures, but as challenges to make appraisal systems useful to employer and employee alike. The employees involved in such a system should participate in its design and execution.

Another influence is the growing realization that individuals may be poorly matched with the demands of their job, their boss, or the style of their work unit through no fault of their own. Fault may, indeed, be quite irrelevant.

Inevitably performance appraisals entail personal judgments; complete objectivity is out of the question. More realistic goals are equity and age-neutrality.

recommendation 14

Effective performance evaluation systems should incorporate certain universal features:

a. Appraisals should take place on a regular schedule laid down by top management.

b. Executives themselves should be judged by their ability to appraise and to devote sufficient energy to doing it well.

c. Appraisals should be reciprocal: the subordinate should know the result and also take part in setting the goals and objectives by which he or she will be judged next time.

d. Most important of all, employees should understand the system and consider it reasonable and fair in operation.

Companies need to become more sensitive to managers' actual views of the appraisal system and its demands on their time. Managers often find it painful to speak critically and clinically to the people they depend on. Many object that appraisal takes time away from work; it is, in fact, a vital part of a manager's work. How can subordinates deliver good performance if they do not know what is expected of them and if they are not in tune with these expectations?

Many managers are sure they communicate their attitudes about the performance of others in their working relationships every day. The fact is that the message is more subtle than they think, and rarely gets through.

How can an appraisal system be kept age neutral? It is not easy for an employer to determine what weight is given to age. An age audit—an analysis of the work force by comparative ages for each department or occupation—may be illuminating. It will show which job categories are filled by people of particular ages and may indicate the need to rebalance the work force for a better age spread. This is not to suggest that age should become an impersonal factor that dictates hiring or promotion practices.

Age will always be a factor in decisions about pay, promotion, reassignment, or work duties. A person's age will be known and will be one benchmark against which relative performance is assessed. But the focus must be on performance rather than age.

recommendation 15

Performance appraisal systems should be age neutral and three-dimensional. One dimension measures what has been accomplished in the past; another measures the worker's job satisfaction, skills, and work-related aspirations; the third sets plans, benchmarks, and expected results by which to measure future performance.

— At the Kellogg Company, in Michigan, employees have free access to files and ratings (as state law mandates). Managers are trained to carry out appraisals along three main lines: (1) key performance requirements of the job, (2) performance trouble spots and how to improve them, and (3) employee aspirations and plans. Discussion between appraiser and employee is encouraged, and the latter has a right of appeal to the personnel department in case of disagreement.

— Bankers Life and Casualty Company, which has a large contingent of older workers, developed its system with extensive participation at all levels of management. Supervisors who have been trained in the art of appraisal have succeeded in eliciting discussion with their subordinates. The main difficulty is to get long-service people at the top of their salary range to articulate personal goals.

— Grumman Aerospace Corporation regards performance appraisal as a tool in career development, separated in time and context from questions of salary. Appraiser and appraisee jointly make plans for the appraisee's training and development. Supervisors receive special training to sensitize them to age bias—a wise precaution in a company where 83 percent of managers, 70 percent of professionals, and 66 percent of technical staff are over age 40.

Increasingly, employees will want to express their choice about a future assignment, even if it means switching to a different type of activity, a different department, or a different occupation. To enhance age neutrality, appraisals should raise questions about possible reassignment. This raises the sensitive issue of "ownership," the tendency of managers to feel that they have a right to veto secretly the reassignment of employees working under them because these employees "belong to them." Vetoes are much less likely when performance evaluation has high priority in the firm and when judgments are pooled. Evaluations then serve to open up the potential of individuals for in-service training, development, and reassignment.

Where an appraisal system carries out these functions, it may be one of the most valuable productivity tools at management's disposal. Just as the firm has a system for maintaining equipment and plant, it needs systems for maintaining the performance of people.

Performance appraisal is likely to become even more urgent in the next decade as jobs require higher education, the individual's output becomes less easily measured, and tasks become harder to define.

Career Development Counseling

The demographics of the 1980s and 1990s will produce an unprecedented bottleneck of middle-management and professional personnel. The absolute numbers of people aged 25 to 44 will jump from 39 million to 60.5 million—a rise of 55 percent. As a result, there will be intense competition for promotions among members of the prime-age group, and middle-aged and older workers will feel the pressure. People in the middle and upper levels are in for a long period of friction and discontent.

While management will enjoy having a large pool of talented employees, the pleasure may be worn thin by internal demands for recognition and achievement. Employees who consider themselves losers, or merely stagnant, will greatly outnumber winners. And all will continue to be employees, generating discontent throughout the staff.

Mid-career crises will become more common and severe among professional and managerial people and will be experienced at earlier ages. Most susceptible will be the group caught in the middle-age bulge. A person who has spent 16 to 20 years in formal education leading to a career, followed by 10 to 15 years on the job, may pall at the prospect of several more decades on the same career path. Greater instability and turnover may be in store.

A large number of people will be feeling frustrated, angry, and in need of career counseling and development. Many will already have been on the job long enough for pension vesting. Concerned about job security, reduced job mobility, and the hazards of reentering the job market, they will feel highly dependent on the company and hesitant to diverge from their chosen career course.

recommendation 16

Companies should offer a fuller range of career counseling and career development planning, possibly including the use of outside professional services. Such counseling should encourage earlier recognition of career problems in order to allow less painful choices. It should emphasize realistic alternatives within the firm as well as external options, but should avoid the sense of crisis or fear of premature dismissal.

A large American camera manufacturing company furnishes an example of a systematic approach to career development counseling closely related to performance appraisals. Counselors serve as guides and intermediaries between workers, supervisors, and managers. The employee has an opportunity to describe both outlook and aspirations in a generally supportive setting. Preferences for job transfers, the timing of transfers, and the employee's chances of reaching career goals or being able to make occupational changes within the firm are all openly discussed. If a worker's performance is rated below average, corrective steps are recommended. The aim is to help each worker design his or her own career path. The company encourages this approach by paying for training courses at any technical school and granting released time for that purpose. Employees accept responsibility to follow through with the program; a worker who drops out must reimburse the firm for the tuition.

Management judges this systematized career development to be effective, though the cost benefit aspects have not been assessed. One sign of effectiveness is that less skilled employees, over a period of years, have moved into more technical, skilled, or supervisory positions. Similarly, professional and managerial personnel have moved into other areas requiring new skills.

Career counseling is somewhat analogous to decision making about investments in capital equipment and the maintenance or replacement of expensive machinery. These decisions are frequently necessitated by major technological change. A computer, for example, is brought into question because a new generation of computers is coming on the market. The firm may choose to replace the older computer, shift it to another use in the organization, or place the machine out in the market. The same choices have to be made about people.

A firm with a large investment in its employees should be trying continually to recapture that investment by its effective use of people. It is far easier to "reprogram" a skilled and valued employee—to rechannel him or her into another department or skill, while retaining the individual's experience, loyalty, and knowledge of the firm—than to hire and integrate a new person into the organization.

Preretirement Counseling

According to the *1979 Study of American Attitudes Towards Pension and Retirement,* conducted by Louis Harris & Associates, Inc., in cooperation with the New York-based consulting firm of Johnson & Higgins, "The experience of today's retirees shows that preretirement planning is critical to a secure retirement." Workers who have not planned for retirement are much more likely to retire with inadequate income. Among those in the survey who felt they had carried out adequate planning, only 10 percent stated that income was less than adequate, as against 56 percent of retirees who claimed to have had too little planning or none at all.

A large number of employees today, regardless of age, fear they have done too little planning and made too few preparations for retirement. The 1979 Harris survey shows that 30 percent of all current employees have not planned for retirement at all. Among those between the ages of 50 and 64, 20 percent have not planned for retirement, and 48 percent have given no thought to how much money they will need when they retire. Fifty-eight percent of all employees have given no thought to retirement income needs. More than 20 percent of older employees expect to retire without a pension.

Hourly wage earners face serious problems in attempting to plan for income security in retirement.[1] While recognizing and anticipating financial problems at the time of retirement, they lack information and technical planning skills.

Formal and informal retirement preparation programs have spread in recent years. Unfortunately, most consist of little more than handouts of information about retirement benefits. Comprehensive analyses of future financial situations are rare.

In a survey of 974 companies in 1977, The Conference Board found that 65 percent had some type of preretirement counseling program. About half limited the counseling sessions to an explanation of the company pension, Social Security, and other postretirement company benefits and services. The other half covered the same topics, but also counseled in areas such as health problems of older people and the use of leisure time.

About one quarter of the firms surveyed–mostly those which offered counseling–regularly distributed retirement planning literature to employees who were near retirement. A small group, 21 companies out of the 974, helped employees prepare for retirement by allowing them to taper off work through a program of extra time off in the final years.

Most preretirement programs are designed to signal older employees, or jolt them into renewed awareness, that they are approaching normal retirement age. The hope is to stimulate employees to become better informed about specific problems they may face, carry out some organized planning, and take positive actions based on these plans.

In The Conference Board survey, the companies whose preretirement counseling consisted mainly of information about benefit plans generally offered advice on a case-by-case basis with the help of a staff specialist. Typically, two or three interviews were arranged for employees nearing retirement.

In about half of the firms giving benefit-plan counseling, the first session was scheduled one year or less prior to the employee's "normal" retirement age. The other half scheduled the initial meeting two or more years before retirement.

The impact of these counseling sessions varied greatly. Companies at one extreme scheduled at least one meeting each year during the five years preceding retirement. At the other extreme, companies scheduled only one session, and that only six months prior to retirement. Obviously, employees had little time for planning.

While most older workers expect financial difficulty at retirement, they rarely try to calculate their retirement needs. Older workers typically say they do not know how to perform such an analysis. They may have requested and received a statement from the Social Security Administration indicating the earnings credited to their account, but they have no idea how much in monthly benefits they may expect.

According to Malcolm H. Morrison in *The Myth of Employee Planning for Retirement*, "Employees face at least three major types of constraints in trying to perform financial planning for retirement. First, they do not have the necessary basic information as to what benefits they can expect at the time of retirement. Second, they do not have the analytical skills necessary to interpret and analyze information related to their particular circumstances. Third, they may have unrealistic expectations about their potential for generating significant income through work after retirement and the overall amount of money they will have saved by the time retirement occurs. They also may not understand how current income is related to future retirement income. Under these conditions, employees can hardly plan realistically for retirement."

By now, enough knowledge and experience have accumulated to determine what a successful preretirement counseling program should comprise.

recommendation 17

We recommend that employers offer preretirement programs that include the following features:

a. Employers should provide a comprehensive treatment of retirement financial planning, involving both group sessions and individual discussions.

b. Individual counseling sessions should focus on the needs and interests of each employee with respect to the economic, work, health, housing, and social aspects of retirement living.

c. Preretirement counseling should begin many years in advance of actual retirement.

d. Companies should employ retirement counselors who are skilled in evaluating employee attitudes and needs, showing employees how to conduct financial analyses, analyzing each worker's public and private pension benefits, and providing overall counseling about alternative courses of action.

e. Planning should emphasize active measures to turn planning into reality, including the development of new career paths, second careers, or changes of work plans and duties within the organization.

A number of intermediary organizations are available to help companies set up better preretirement programs. For example, the Second Careers Program, located in Los Angeles and covering Southern California, has been assisting companies with preretirement counseling and seminar programs. The staff, consisting of a program director, a director of field services, four part-time professional associates, and sixteen volunteers, has access to over 3,500 agencies and organizations that need volunteer services. Research and information are provided to participating firms, which include: Atlantic Richfield, the Automobile Club of Southern California, Norris Industries, Prudential Insurance Company, United Airlines, and United California Bank.

Companies and employees can obtain from Second Careers checklists of recommended programs and activities that appeal to older people. Companies may exchange speakers and experts or obtain assistance from Second Careers to evaluate existing activities. The specialists often provide information about obtaining paid employment, usually in small firms, or about starting small business ventures.

– Action for Independent Maturity (AIM), an arm of the American Association of Retired Persons, offers a packaged seminar program of eight sessions, each designed to accommodate 20 to 25 people aged 50 to 65. Subjects include: the challenge of retirement, health and safety, housing and location, legal affairs, attitude and role adjustments, use of time, sources of income, and financial planning. AIM also has a training program for seminar leaders. Since its inception in 1971, over 900 companies have bought the service.

– Levi Strauss & Company has developed a package of its own, with AIM as a model. In addition, it uses film strips, debates, and role playing to stimulate discussion.

– Atlantic Richfield Company, after experimenting with AIM and other packages, has developed a set of videotapes which allow great flexibility in presentation, in regard to the numbers of participants and the introduction of additional materials.

– A different tack is taken by Polaroid Corporation, which provides both formal seminars and individual counseling for employees aged 54 and up and their spouses. A counseling session averages two hours in length; it is updated three to five years later, and then again within 18 months of retirement. Also the company presents a six-part evening seminar three times a year, covering finances, legal affairs, Social Security, insurance, life habits, and future interests and activities. Of Polaroid employees who work to age 65, about 50 percent continue working thereafter.

– Morgan Guaranty Trust Company of New York presents a two-day seminar for employees and spouses, where benefits, Social Security, Medicare, and the pros and cons of retirement are discussed. The eventual aim is to start retirement planning at age 55.

– Every employee at Grumman Aerospace Corporation receives an annual statement detailing his or her benefit status. At age 55 and above the employee receives a special report, describing the benefits available if retirement is taken at various ages. Since 1978 the company has added voluntary groups for employees and spouses aged 55, 60, and 64, at which the participants hear taped information about key retirement issues and have a chance to discuss them with experts.

Summary

- Performance appraisal is a difficult but necessary management system for achieving high productivity. Goals of appraisal should be equity, age neutrality, openness, and relevance to training and development plans.
- Employees caught in the middle-age bulge of the 1980s will have a particular need for career counseling. Employers will find such programs useful because it is more profitable to "reprogram" a valued worker into another channel than to hire and integrate a new person into the firm.
- The great majority of older workers have done too little planning for retirement, largely because they do not have the information or skills to do so. As a result of many experiments, the essential contents and procedures of a useful preretirement counseling program may now be prescribed with some confidence. Such programs have been undertaken successfully by a number of companies on their own or with the assistance of intermediary organizations.

NOTES

1. This discussion is based principally on two sources: Malcolm H. Morrison, "The Myth of Employee Planning for Retirement," in *Industrial Gerontology: Problems, Potentials of Work and Age* (Washington, D.C.: National Council on the Aging, Inc., 1975); and J. Roger O'Meara, *Retirement: Reward or Rejection?* Report No. 713 (New York: The Conference Board, 1977).

8 / Training and Development

Training and development programs are useful to the extent that they form part of a well-balanced work-force policy. In the last two decades, in-service training, career development, and continuing education have become more widespread and sophisticated. When programs are examined according to the age and rank of participants, it is clear that, aside from basic job training, they are primarily designed for employees selected for management or executive development.

Decisions as to who is to be trained or retrained are generally in the hands of top management alone; trainees are kept in the dark about the development plans in store for them. As they cycle from one rotation assignment to another, they may sense that they are spiraling upward, but they have no part in the planning process, nor are their preferences and expectations taken into account. In executive development, secrecy is the keynote.

A restrictive approach to executive development will not satisfy the expanding needs and demands for additional training that we foresee for the next two decades at least. Greater employee participation in planning these activities will improve the quality of results.

Companies will have to respond to the desires and expectations of a growing proportion of their employees for continued training, higher skills, changes of assignments, and personal development. A more open system of management and personnel development is required, with greater candor, earlier warning, and more varied career choices for employees.

Development policies and practices too often reflect informal age restrictions, standards, and assumptions, whose net effect is to exclude older employees. Such exclusion is out of tune with an era of extended working life. Why should an employee of 50, who may work to age 70, be barred from further training and development on grounds of age alone?

Age-Neutral Training

recommendation 18

Since developmental programs will have to stretch over a greater age span, concepts of training and development will have to become more elastic. We recommend, therefore, that more consideration be given to lateral assignments, job redesign, ease of shifting between functional specialities, and freer movement of employees out of the company to gain experience or training (perhaps in a different field) and then back to the company.

Present career paths are too narrow, vertical, and compartmented to prepare employees for unforeseeable future demands. When functional and organizational specialization are grafted onto occupational skills, major business functions become walled fiefdoms. For example, few employers encourage movement from marketing to finance, from finance to manufacturing, or from personnel to public affairs.

Overspecialization shrinks opportunity, confines competition within the borders of one organizational or functional arena, and raises unnecessary barriers to promotion from within, when the crying need is for broader experience, knowledge, and understanding of the interplay of functions.

Rigid definition of careers is a root cause of mid-career crisis. When the middle-aged worker must get a special dispensation to cross over into a new functional territory, opportunities for management development, reassignment, and new career paths are choked off.

Effective use of training by the firm presupposes other types of labor-force planning. For example, a company would not want to invest a year's training in someone who was about to leave the firm. On a larger scale, when a company anticipates major shifts of product lines or individual business units, it must also plan for large-scale retraining and reassignment. As Peter Drucker points out, such planning may have to look two to four years ahead.

recommendation 19

Companies should develop a planning perspective that will enable them to view their employees as human resources, whose regular assessment, enrichment, renewal, and modernization will benefit all concerned. As part of that perspective, the following measures should be taken:

a. Employers, before hiring a work force for a new plant or office, should first seek to train current employees, including older workers, who wish to shift occupational skills, careers, or assignments.

b. Training and retraining opportunities should be posted, advertised, and marketed within the company to the same degree as job openings, in order to attract people of all ages. All managers should know about these opportunities and be required to encourage subordinates to consider them seriously.

c. *The ability to recruit existing workers for new jobs within the firm in preference to outside hiring should be made a criterion of managerial performance.* This would put in-service training and career development on a par with other key work-force issues, such as job security, retention of skills and knowledge, and reduced turnover.

d. *In order to make retraining and career development applicable to all, employers should develop more objective attitudes concerning the adaptability of people—including older workers.* We believe it is time to discard the notion that people who have specialized for many years in one field or in one aspect of business lack the aptitudes, learning ability, or skills to move into another. Engineers, for example, often transfer successfully into manufacturing, marketing, or personnel.

Retraining

In-service retraining is a clear and obvious way to take advantage of the extended working life by strengthening the skills of a work force. Large corporations, which have in-house resources, can usually manage such programs at their own facilities, and smaller companies can make use of local institutions for the purpose. Yet advanced training for salaried personnel and wage earners is more the exception than the rule.

recommendation 20

As employees climb the ladder of professional or managerial posts, training should continue to keep pace with their needs. Brief seminars or workshops are useful but insufficient, so broader training programs should be instituted.

In addition, the trend toward recertification of professionals in medicine, law, and accounting will probably extend to other professions and careers. Often the need for such retraining is first sensed and defined within work organizations, and companies themselves have the expertise, teaching personnel, and knowledge of the exact curricula required. Larger employers can finance the infrastructure and can usually find a body of employees eager for retraining, further learning, and self-renewal as a means to enrich their working lives.

The appeal of retraining will grow with the relaxation of the linear life pattern. It is commonly assumed that lives must follow a prescribed sequence: growing and learning, typically, through the teenage years and perhaps into the twenties; then work until age 65; then retirement and leisure. Based on this linear view, investments in company training and retraining are usually targeted on the younger worker. Today's workers, however, are abandoning the linear pattern. They want to enjoy leisure and education during their prime working years; by the same token, older people want to add work and education to the leisure they have purchased with their age. There are no insuperable obstacles to such an arrangement.

With a new perspective, the training investment can be applied profitably to all age groups in the work force.

Special Training, Continuing Education, and Degree Programs

Corporate training and retraining need not be limited to in-house or local community facilities. A great many universities, colleges, community colleges, vocational schools, and specialized training institutions would like nothing better than to tailor training programs to the desires of corporations. The employer should examine its inventory of training needs for all age groups, then decide which are best handled in house and which might be developed cooperatively with outside institutions.

recommendation 21

To improve off-site continuing education, training, tuition aid, special studies, and degree programs, the business community should hold out a hand to the educational establishment. The offer should come from business to education, not vice versa, because the educational establishment as a rule has an imperfect grasp of the changing needs and occupational mix within enterprises. Academics follow business mainly through the literature—secondary and tertiary sources which are incomplete and quickly out of date.

recommendation 22

Where a group of employers in a single community or a single trade association share a training need, they should consider the development of specialized courses and programs collectively. This may be particularly useful where there is a dominant industry within a city, such as the computer industry in Minneapolis or the electronics industry around Boston.

recommendation 23

Employers should consider lending specialists to a local educational institution as more cost effective than setting up an in-house program. Such loans might serve as transitional assignments for senior personnel who incline toward the academic field as a second career. Alternatively, employees with special knowledge might be offered the opportunity to join the faculty of a local college or university in order to develop appropriate courses and present those courses to the firm. Bell Laboratories is a good example of a firm that has exercised these options.

recommendation 24

Companies should provide special guest lecturers to enrich the curriculum at professional schools. Or they could invite faculty members to work at the firm long enough to acquire the knowledge with which to develop a curriculum for later use by employees.

Business-education exchanges not only can enrich technical training, adult education, and a wide variety of nondegree training programs; they may also be a godsend to colleges and universities with unused facilities and declining student enrollments.

Practical combinations of work and education also enhance the value of training. For example, Pace University in New York City offers an MBA program in which class attendance cuts into the business day as little as possible. Classes are scheduled at night, all day on every other Friday, and every Saturday for the length of the program. Graduate education, full-time employment, and flexible work and training schedules can all be accommodated.

In-Service Updating and Upgrading of Skills

Most large companies institute in-service training and development programs to prepare for new products or services. Training ranges from the simple, as when a few procedures are added to the job, to the very complex, as when a major production system is introduced or a plant is constructed.

recommendation 25

In-house management training programs should recognize that older workers have different learning patterns than younger workers. Take the case of a major air carrier that had decided to convert its standard warehouse operation into a containerized freight system. The change necessitated wholesale retraining of the work force, about half of whom were over age 40. Small-group training was given while the new facility was under construction. By the time the facility was completed, the workers were ready to take over.

The method of training allowed for slow, paced learning which related the parts to the whole, reduced fears of error, reinforced task mastery, and accepted the different age and experience levels of the employees. Operation of the new system was explained in terms of task sets, increasing gradually from the simple to the more complex. Simulations and game theory helped to instruct workers in the computer-control methods associated with the system.

In many firms the average age in certain occupations may be in the fifties and rising. Yet company studies of in-service skills-upgrading programs show that younger workers are most likely to be enrolled. Further investigation discloses that the lower participation of senior workers is due to their heavy commitment to important work projects and the reluctance of managers to spare them for training. In consequence, large numbers of older workers grow farther and farther out of touch with new technologies and processes in an unnecessary waste of knowledge and experience.

Moreover, although rapid technological change creates more obsolescence of knowledge among middle-aged and older than among younger workers, incentives for updating and upgrading skills have been scanty. Long-service employees have seen little point, therefore, in putting energy and time into upgrading their knowledge.

recommendation 26

Two measures should be taken in order to keep older workers abreast of new knowledge in their fields: (1) top management should intervene and make it known that training of older employees must not be sacrificed to current pressures, and (2) more concrete benefits and incentives should be offered to older workers for training, self-development, and self-renewal.

Substantial corporate incentives may be the most direct means of supporting the expansion of continuing education for older workers. Usually, workers are free to pick their own courses of study. Upon successful completion—or before, in some cases—the company reimburses the study costs. Tuition aid is offered by many companies as a low-cost investment in employee development, but remarkably few employees accept the offer.

Companies with notable in-service skills upgrading or updating programs include the Maremont Corporation, Lockheed, Grumman, the Mead Corporation, General Electric, IBM, General Motors, Chrysler, Merck and Company, the Carborundum Company, and Illinois Bell.

– General Electric's Aerospace Electronic Systems Department, in Utica, New York, ran 12-week "retread" programs for 40 long-service engineers (average age 40 plus), to bring them up to date on the transition from analog to digital techniques. The participants, hesitant at first, but eventually quite positive, spent half of each day in class and the other half at their regular jobs.

– AT&T has a companywide employee-initiated program of job transfer for all nonmanagement personnel. "Job briefs" tell employees the basic duties and qualifications of each job. An applicant who demonstrates capacity to achieve the qualifications receives on-the-job training and/or classroom training. The successful trainee has to spend between 6 and 30 months at the new job in order to become eligible for the next transfer.

– Mead Corporation operates a Development Institute for manager training, where 15 one-week courses, covering a wide variety of subjects, are offered each year. Average class size is 40. Participants enter voluntarily or by recommendation from a superior.

– Perhaps the most extensive corporate training system in the country has been developed by IBM, where more than 5,000 full-time and part-time instructors in 200 domestic education centers now provide three major types of courses: management development, technical updating, and job retraining. Some 10 million student hours are logged each year—the equivalent of nearly 40,000 full-time students receiving 15 classroom hours per week in a 32-week college.

These efforts reflect the philosophy of Thomas J. Watson, Jr., former chairman of IBM: "If we respected our people and helped them to respect themselves, the company would make the most profit." IBM has demonstrated that upgrading and retraining benefit not only technical specialists, but all types of employees.

Summary

- Older workers should not be barred from further training and development on grounds of age alone. More consideration should therefore be given to freer movement from one function or area of the enterprise to another.
- Retraining of professional and managerial employees should keep pace with their promotions. Large employers have the staff and facilities to provide on-site retraining. Others can make use of the many universities and other institutions which would like to tailor programs to employers' needs. Interchange of staff between firm and educational institution can be of benefit to both in designing and executing programs.
- The skills of long-service employees often become obsolescent because there is little incentive to upgrade or update them. Top management should step in and insist that training not be sacrificed to current pressures. Training is an investment which maintains a much longer term investment in the career employee.

ELEVEN NEW OPTIONS FOR EXTENDED WORKING LIFE

1. REDESIGN OF WORK SCHEDULES is a low-cost strategy with great appeal to older workers and a large potential payout to the employer. **2. JOB REDESIGN** can strip a job of the nonessential elements that cause physical or mental stress and can reshape it to make better use of the special qualifications of older people, such as experience and wisdom. **3. TRANSFER OR REASSIGNMENT** to new or more challenging duties can invigorate an older worker and stimulate higher productivity. **4. REASSIGNMENT TO LESSER RESPONSIBILITIES,** if accompanied with minimal loss of status and perquisites, can benefit not only the employee who wants to continue working full time but feels the need to taper off, but also the employer. **5. WORK-EDUCATION COMBINATIONS** can enable older workers to take on new responsibilities which are of value to their employers as well as to themselves. **6. PART-TIME WORK** provides an ideal means for a great many older people to reconcile income and social needs with leisure and family interests. **7. PHASED RETIREMENT** allows older workers to make a gradual, less stressful transition to a new style of life. **8. RECALL OF ANNUITANTS** gives the employer a reservoir of specific skills and gives annuitants the work opportunities that many of them desire. **9. SECOND CAREERS—** major changes of occupation within the firm—may help to relieve the intense competitive strains which will develop as the proportion of 25- to 44-year-olds rises during the 1980s. **10. STARTING A BUSINESS** of their own is a goal of many older workers. The employer often can benefit more from assisting than from discouraging such a move. **11. OUTPLACEMENT** assists surplus employees to find suitable jobs with other employers so that they can remain in the workplace.

9 / New Options for Extended Working Life

As employers adapt to the extended working life during the next two decades, many new options, aimed at making work more productive and satisfying, will be introduced and refined.

This chapter discusses eleven major categories of new arrangements, which have already demonstrated their value. Within the firm, these options consist of: redesign of work schedules, redesign of jobs, transfer and reassignment, reassignment with lesser responsibilities, work-education combinations, part-time work, phased retirement, and recall of annuitants.

If older workers plan to leave the firm, second careers, small-business opportunities, and outplacement present possible options.

A key objective in any one of these arrangements is to avoid abrupt breaks, whether between one job and another or between work and retirement.

WITHIN THE FIRM

Redesign of Work Schedules

A mail survey by Portland State University in 1979 brought responses from 1,636 firms regarding their position on four alternative work plans: flexitime, part-time options, flexible wage schedules, and increased vacations or sabbaticals. Five possible answers were allowed, ranging from "implemented" to "not considered." Results are shown in table 26.

Part-time options had the widest implementation or consideration among these alternatives, followed by flexitime. Flexible wage schedules and increased vacations or sabbaticals were far behind.

Similar results were obtained from a telephone survey of 256 large companies, also conducted by Portland State University; 19 percent of the firms answered that they had considered or adopted one or more of these options. No significant relationship was shown between adopting or considering such programs and the firm's size or industrial sector. Altogether, the firms which had adopted or considered alternative work patterns employed 24 percent, or 351,825, of the sample's employees.

Three types of alternative work policies were measured: flexitime, reduced hours or part-time options, and shifting job responsibilities for older workers. Results are shown in table 27. Once again, part-time options came first, followed by flexitime. However, 81 percent of the respondent firms had neither adopted nor considered any of these alternatives.

Considering both surveys, the incidence of both part-time and flexitime programs appears to be increasing. About 12 percent of the respondent firms were implementing flexitime, and they employed about 8 percent of the workers covered by the sample. Part-time options had been adopted by 17 percent of the firms responding, which employed 11 percent of the total number of workers. Phased retirement and flexible wage schedules and increased vacation or sabbatical leaves were offered by a small percentage of the firms. There was no significant relationship between the size of the firm and the use of alternative work policies.

Table 26
Company Position on Alternative Work Patterns
(percentage of firms responding)

	Flexitime	Part-time options	Flexible wage schedules	Increased vacation/ sabbatical
Implemented	14%	19%	7%	6%
Beginning implementation	3%	3%	2%	2%
Serious consideration	6%	12%	5%	4%
Preliminary consideration	11%	16%	10%	9%
Not considered	66%	50%	76%	79%
Total	100%	100%	100%	100%

Source: Lois Copperman, et al. "Retirement Ages: The Impact of the ADEA Amendments of 1978," Institute on Aging, Portland State University, Portland, Oregon, August 21, 1979, p. 47.

recommendation 27

The spread of alternative work schedules is still quite modest. On the other hand, older workers are known to be strongly in favor of them. Employers should take advantage of these low-cost, popular, high-potential-payout programs, which will also help them tap into the changing labor market of the 1980s.

Flexible work schedules, or flexitime, allow the individual some latitude in deciding which hours, days, or weeks to work. For older workers with reduced home responsibilities, flexitime makes it possible to put in unusual hours, including evening shifts or occasional overtime.

Philip L. Rones of the Bureau of Labor Statistics (BLS) writes that among men receiving Social Security retirement benefits, 68 percent of the self-employed and only 32 percent of wage and salary workers were still working. There are two important reasons for the disparity, he says. First, the self-employed "can adjust their hours and working conditions more easily to meet their health needs or desire for increased leisure. Second, the self-employed can adjust their earnings more easily, if they wish, to meet the Social Security retirement test." They have, in essence, flexible working hours.

According to Professor Stanley Nollen of George Washington University, flexitime has risen from essentially no use in the United States during the early 1970s to usage by an estimated 13 percent of all companies and 6 percent of all workers in 1977.

Smaller firms have shown as much interest in flexitime as the larger firms. Indeed, in the Portland State University survey the highest proportions of implementation occur in the categories of firms with 50-99 employees and those with 100-249 employees. Adoption of flexitime is not significantly correlated with the firm's industrial sector, the proportions

Table 27
Type of Alternative Work Policies Adopted or Considered
(percentage of firms responding)

Type of Alternative Work	Responding Firms
Flexitime	5%
Reduced hours or part-time options	12%
Shifting job responsibilities for older workers	1%
Active consideration of alternative work policies	1%
No alternative work policies adopted or considered	81%
Total	100%

Source: Copperman, op. cit., p. 57.

of white- or blue-collar workers, or the number of years the firm has been in business.

Redesign of Jobs

Changing technology, along with the demographically caused need to retain and make better use of older workers, will motivate employers to redesign jobs.

recommendation 28

Jobs should be redesigned to reduce undue stress, whether physical or mental, which often impairs the performance of older workers. The firm which ignores such stress may be prematurely losing many of its best employees, incurring excessive costs for workmen's compensation, or risking lowered performance by older workers.

The reasons for redesigning jobs apply as much to younger as to older workers, namely, to increase productivity, reduce job monotony, eliminate waste, improve quality, and increase worker motivation.

Another objective is to make it feasible to mix younger and older workers more fruitfully within each work unit, in order to produce a better interchange of training and skills. As the demand for older workers increases during the next 20 years, and as more displaced homemakers enter or reenter the work force, job duties and schedules will have to be adapted to the needs of these workers.

Hitherto, experimentation with redesign has been directed mainly to blue-collar and junior office jobs, with outstanding results in the case of well-planned and well-executed programs. Much less attention has been paid to redesign of managerial, professional, and technical positions. This reflects the lower relative numbers of these jobs, the difficulty of defining their content, and the variety and subtlety of skills they involve.

recommendation 29

More attention should be focused on redesigning middle-management, professional, and technical jobs, many of which are poorly designed. Planning, coordinating, and facilitating duties should receive greater emphasis, while less demanding tasks and decisions should be assigned to lower levels. Redesign is particularly important when senior people occupy these jobs.

Redesign should open many options for improved organizational relationships and provide an additional escape valve for pent-up job pressures.

Transfer and Reassignment

The postwar period has seen a marked shift in the geographic distribution of employment. Job growth has been slowest in the Northeast and

Midwest, fastest in the South, Southwest, and, to a lesser extent, on the West Coast. Many industries have expanded in the South and Southwest during the past 30 years.

What accounts for these movements? According to Dr. David L. Birch, in a 1979 study entitled *The Job Generation Process,* branching is the main form of corporate expansion. "Virtually no firms migrate from one area to another in the sense of hiring a moving van and relocating their operations," writes Dr. Birch. "The oft-cited move of textiles and shoes from New England to the South represented a rare fluke in the 1950s, not an example of a significant process today. The rate of job loss . . . is about the same everywhere and is quite high—8 percent each year. Northern cities are not losing jobs faster than southern ones, nor are cities losing jobs particularly faster than suburbs." [1]

Often a shift coincides with the closure of an old plant, with the result that a significant proportion of middle-aged and older workers have to choose between losing jobs and accepting a transfer or reassignment to a new location.

It has generally been assumed that older workers are less willing to relocate than younger ones. In fact, readiness may depend more on occupational status or family situation than on age. With the exception of the executive ranks, the job mobility of the average American worker has not been very high, and even among managers some observers have noted increasing disinclination to accept transfers and reassignments. People whose children attend school in the local community are generally least amenable.

As energy costs rise, the interregional movements of capital and jobs are likely to continue. Older workers should have a fair shake in the opportunities for the new jobs, not only through reassignment but as original hires.

Many older workers whose children are in postsecondary schools or have already entered the work force may be willing to move to the Sunbelt, with a view to finding a more desirable climate for eventual retirement. The southward expansion of a company's employment could be just the opportunity they were hoping for.

In many locations, particularly within the Sunbelt, employers find older workers a significant proportion of potential hires. Older people are a principal human resource in Florida, where the population now includes about 2 million retirees.

When employers are hiring for a new site, they should seek a balance between older and younger employees. Older employees are demonstrably more stable, and a leavening of them will offset the greater tendency of younger people to change jobs.

recommendation 30

recommendation 31

Management should adopt the policy of reassignment of older workers to different duties. This policy can raise older employees' productivity and give them a new lease on life by utilizing their long experience more fully and enabling them to make a more valued contribution.

In many quality-of-work-life projects in recent years companies have made good use of senior workers on problem-solving teams, quality-review teams, projects to improve productivity, and other tasks where they can apply knowledge and wisdom to problems which have important long-range implications for the firm. These workers can be freed from day-to-day responsibilities which confine their skills, experience, knowledge, and common sense to a narrowly focused area.

Japanese companies have been especially daring in this respect. During business recessions, for example, senior workers in some firms are assigned to serve as paraconsultants on quality-control problems, changes in work methods or processes, and studies of customer relations. The fact that these workers have job security until retirement compels employers to view them as long-term investments, which must be managed for the highest long-term return.

In the United States, General Motors is one of a number of companies experimenting with mixed teams of people drawn from different specialties, both in autonomous work teams and in special problem-solving groups. The problem solvers have company facilities and a budget and meet once a week to develop new ideas about how the business ought to be run. According to the company, a great many challenging proposals have emerged, of which some are already being applied successfully.

Reassignment with Lesser Responsibilities

When Danish managers were asked in a 1978 survey whether they preferred demotion to early retirement, a resounding 70 percent opted for demotion. The survey, conducted by the Danish Institute for Personnel Management, asked 1,285 managers in 154 of Denmark's largest companies how they would react to the prospect of being replaced by a younger executive, provided that there were no changes in job title or reductions in salary. Nearly three-quarters of the managers over the age of 54, and 46 percent of those between 40 and 54, indicated that they would accept the change in jobs. Only 8 percent of executives under the age of 40 agreed.

Even when the question was reframed to include downgrading in title as well as responsibility, and a 10 percent reduction in salary, 28 percent of the managers over 55 years old said they would prefer this type of demotion to early retirement. Another 28 percent would accept if it entailed reduced work effort.

These results indicate that in Denmark a downgrading in title, responsibility, and salary, if not too severe, is far from unacceptable when a manager passes age 55. [2]

In the United States a few companies have experimented with demotion. *Maremont Corporation* has had ten years of experience with what it describes as "down placement." At the *Kellogg Company* in Battle Creek, Michigan, where most of the company's 8,000 workers are employed, the firm has experimented successfully on a small scale with offering lower-level positions as an alternative to termination or reassignment.

The Danish experience with demotion suggests that *employers should consider allowing workers to take a voluntary reduction of responsibility and pay, provided that the negative connotations of demotion can be avoided. A reassignment should decrease the difficulty and responsibility of the job without implying that the change was either punitive or the individual's fault.* Because American society has tended to worship promotion for its own sake, even when it leads to work assignments which are too onerous, too stressful, or unsuited to the talents of the individual, the very word "demotion" sounds punitive and deprecatory.

recommendation 32

Work organizations might therefore investigate the attitudes of their long-service employees toward *voluntary* reduction of responsibilities. Whenever these reassignments occur, the firm should be sensitive to the need for saving face. In some cases, pay may remain the same or be protected for a specified time. Status symbols, job title, size of office, continued supervisory responsibility, or access to line management are also important.

We may need to invent a new language for reduction of responsibilities. There are a great many cases in which an employee considers it socially respectable to retire early, to accept a transfer, or to move to a less lucrative occupation or job. If a similar rationale can be applied to voluntary reassignments, they need not be seen as humiliating.

Work-Education Combinations

Employers should develop arrangements through which employees can gain further education or training, while still keeping their status with the firm. The outstanding issue in expanding these arrangements, however, is how to finance full-time training or education for people who have substantial financial responsibilities. A number of alternative schemes are possible.

recommendation 33

Since it is uncommon to find a middle-aged or older person who can afford to go to school full time without help, or an employer who will pay a stipend for the person to support dependents, a number of alternative financing schemes may be developed. In some multiple-worker families, a combination of savings and company loans might suffice. Loans could be drawn against a company thrift and savings plan, bearing no interest or low interest, for employees who attend an educational institution full time and then return to the firm.

Arrangements for part-time work in the company might be feasible.

Another means of financing may be a temporary lien against the employee's pension. The worker could borrow against future pension benefits and repay by payroll deductions over a number of years after returning to work. The company might forgive part of the repayment once the education has been successfully completed, or after a certain period of demonstrated work performance back on the job. Indeed, the firm could, as a training bonus, forgive part or all of a loan in return for several years of good performance in a more demanding job than the one the employee left.

These work-education combinations differ fundamentally from the usual tuition-refund plans. Actual separation of the employee from the firm in order to be retrained or to continue education on a full-time basis, with reemployment rights, is much more effective than attending night school or taking one or two courses per year.

Another financing method might be to apply unemployment insurance benefits. Present regulations allow a person to draw these benefits only when *out* of the labor force and available for gainful employment. An individual attending school full time is considered unavailable for work. The pursuit of education as an interval from work should not disqualify the employee for unemployment insurance benefits.

recommendation 34

We recommend that the unemployment insurance law be amended so that people who are unemployed but attending full-time educational institutions for periods up to one year are eligible for benefits, provided they are not less than 30 years of age and have contributed to the unemployment insurance fund for not less than five full years. The program should be subject to proper certification procedures, with responsibility to be assumed by the educational institution to show that the course taken by a client will produce marketable skills.

Part-Time Work

Part-time work, whether temporary or permanent, will be increasingly the most favored method for retraining and hiring older workers. They are ready to lower the work pace, they need partial income, they do not want to lose the rhythm of work, and they want to continue the social, psychological, and professional benefits of work. Part-time is usually a happy compromise between retirement and full-time work, or a means of continuing productive activity while phasing into a new career or job.

Part-time work can be infinitely varied in scope, comprising not only a specific number of hours per week, but also alternating weeks, alternating months, and seasonal or periodic work.

In 1977, according to the Bureau of Labor Statistics, about 15 percent of the employed civilian labor force worked part time. But while part-time jobs have increased at more than double the rate of full-time jobs in both the private and public sectors, part-time jobs are still more apt to be found in sales and clerical work or in laboring than in professional or managerial positions. The BLS states, "The higher the job skills and the degree of supervisory responsibilities, the less likely is the worker to be employed on a part-time basis."

Nineteen percent of the responding firms in the Portland State University survey had implemented part-time options, including job sharing; another 3 percent said they were beginning to implement these programs. There was no significant relationship between size of firm and use of part-time options, but a significant relationship existed between part-time work and type of industry. Firms in wholesale and retail trade and services were much more likely to have considered or adopted part-time work. Generally, the longer a company had been in business, the more likely it was to have adopted part-time work. Part-time options are available presently in firms employing only 11 percent of the labor force covered by the survey, but firms employing an additional 11 percent are considering them.

Currently there are many more people desirous of working part time than there are part-time jobs. In these circumstances, employers feel no need to offer attractive benefits to part-timers. The number of part-time jobs is also depressed by ERISA's requirement that benefit coverage be provided for any employee who works more than 1,000 hours annually for a single employer.

recommendation 35

We recommend that employers make part-time work more attractive by prorating employee benefits in proportion to full-time work. Full-time and part-time workers have usually been regarded as separate and distinct species, so that full-time workers who move to part time often lose their benefit protection. *The goal should be benefits that meet management's reasonable cost objectives and at the same time give part-time workers fair treatment.* If a union is present, these part-time arrangements will be bargained collectively. In the absence of a union, companies should still take soundings among employees to ensure that the formula is acceptable and that costs are kept in line.

We predict that part-time jobs will gradually lose their image of second-class employment, not only because they are growing steadily, but because they meet an important need, particularly among older workers, and most of all in times of high inflation. In many work organizations, such as large retail stores, part-time employees are already a primary part of the labor force.

When employers do decide that it makes sense to hire people part time, they develop effective ways to work out the benefits arrangements.

– Toro, of Minneapolis, a fast-growth company, has 65 of its 4,200 employees on part-time, on either permanent or overload basis. Permanent part-timers work between 20 and 40 hours a week. They are eligible for profit sharing if they put in at least 1,000 hours a year, and they receive five days of paid vacation for each 1,000 hours worked. A few older employees work three days a week. To make part-time work more attractive, the company is considering adding medical and life insurance benefits.

– A more dramatic solution involving part-time benefits is that of the San Francisco teachers, described in chapter 6, "Pay and Benefits."

– In Kansas, the Wichita Board of Education accepts teacher-initiated job-sharing arrangements, in which each member receives half of the base pay and half of the benefits and teaching credits. In addition, 1978 state law allows board employees to retire at 60, receive their pensions, and be rehired into any job for which they are qualified. The new law is expected to give a big boost to job sharing, making possible many fruitful combinations of older and younger teachers.

Employers who need more part-time workers and cannot offer an attractive total-benefits package can expect higher turnover, lower motivation and productivity, and greater difficulty in hiring qualified people.

Numerous advantages of part-time employment have been cited by both public and private employers: increased flexibility in managing heavy workloads or in scheduling personnel for peak hours, reduced absenteeism and turnover, retention of skilled and experienced employees who want to reduce their hours, extension of service hours to the public, and recruitment of people with specialized skills who may not be available for full-time work.

On the other hand, there may be real negatives: a bigger management load, the employment of more people, more instability in the work force because part-time workers sometimes feel less committed to employment than full-time workers, more variations in part-time work styles, and the potential for lower morale if full-time workers resent the flexibility afforded to part-time employees. Other disadvantages mentioned by employers are increased administrative costs for training, supervision, paperwork, and office needs; possibly increased costs of fringe benefits; and possible reduction of authorized positions when part-time people replace full-time employees. These adverse factors apply more to irregular and temporary part-time than to permanent part-time employment.

The major obstacle to expanding permanent part-time opportunities may be the belief, shared by managers and supervisors, that part-time employees are not really committed to the job. There are many examples, however, that refute this idea. Permanent or regular part-time jobs, which enable older people to work on a less demanding schedule and yet retain certain benefit arrangements, give the employer the best four or five hours of the person's day.

The most desirable situation for an older worker is to gain part-time work with the organization that previously employed him or her full time. Wider use of shared jobs may be the key.

Phased Retirement

In a 1977 study of retirement by The Conference Board, *Retirement: Reward or Rejection,* 21 companies—only 2 percent of the sample—were found to have experimented with phased (also called "gliding" or "gradual") retirement.[3] This is the practice of allowing employees to reduce their hours of work as they near retirement. Seven of the 21 were insurance firms, whose high proportion of office and white-collar occupations may lend itself more easily to gradual retirement.

recommendation 36

We recommend that employers provide options for phased retirement as a means of giving employees a chance to sample the leisure time and the new activities of retired life before actually taking the plunge. This offers a reasonable transition from full-time work to retirement.

Two distinct approaches were evident among the 21 firms. Sixteen allowed phased retirement before the normal retirement age. These companies, which regarded the plan as an integral part of the benefits package, paid the employee for the time off. The other five provided phased retirement *after* the normal retirement age and did not pay for time off. In some cases, the plan was compulsory. In others, the time off was meant to induce the employee to continue working part time during a period of semiretirement.

– At Wrigley Company, employees approaching normal retirement age may taper off over a three-year period, starting at age 62. They take one month off (without pay) in the first year; two months in the second; three months in the third. Subsequent pension benefits increase by 8 percent per month to compensate for the lost wages.

– Towle Silver Company grants workers 40 paid days off over the four months before retirement: one day per week during the first month, two days per week during the second, and so on.

— New England Mutual Life Insurance Company's plan allows extra paid vacation time after age 62: two weeks the first year; three weeks, the second year; and so on.

Employee reactions to phased retirement plans are varied. Both the Wrigley and Towle plans have been functioning for many years, however, which indicates that they respond to a felt need.

The Portland State University survey inquired about phased retirement in three forms: flexible wage schedules, increased vacation time, and sabbatical leaves. Flexible wage schedules, which permit employees to receive a partial pension while also receiving partial wages in accordance with the number of hours worked, had been adopted by 7 percent of the respondents. Another 2 percent were beginning to implement this policy, and 15 percent were considering it. Smaller firms followed this practice more often than large firms.

The policy of increasing vacation time or providing sabbatical leaves for older workers had been implemented by 6 percent of the respondents; another 2 percent were beginning to implement it.

Recall of Annuitants

Callback of annuitants from retirement has proved cost effective, especially in high-technology and financial firms where older workers' skills are scarce or hard to replace.

recommendation 37

Companies should increase the flexibility of managers to recall annuitants on a consulting basis. For many seasonal demands—preparing annual reports or budgets; peak sales loads, inventory taking, production peaks—it makes sense to use annuitants who know the ropes, rather than to look outside. The policy obviously has to be balanced with existing labor-force needs. If middle-aged employees are blocked, with few chances to advance, calling annuitants back for anything other than short-term noncompetitive assignments would arouse hostility.

When annuitants are recalled, new pension arrangements or credits may have to be worked out. Normally, the annuitant will accrue additional pension rights for full-time employment, although other arrangements may be acceptable. Full benefit coverage should be applied while the annuitant is actively employed. It may also be feasible to recall annuitants without changing their pension status, particularly if they are used as part-time consultants for a short period of time.

— Sundstrand Data Control, Inc., in the state of Washington, has a shortage of engineers and technicians. Although the work force is young, with only 30 annuitants, six of them (five engineers, one technician) have returned to work, some as temporary employees (with hourly pay while continuing to draw pension), others full time (with salary plus fringes, no pension payments, but with credits accruing toward a second pension).

– Aerospace Corporation hires annuitants as short-term consultants for up to 20 working days a year. Of 100 consultants at the company in 1979, 40 were annuitants. A few are employed for longer periods, on special contracts.

– Lockheed Corporation in 1978 hired 12 annuitants for a wide variety of jobs.

– Northrop Corporation has an on-call work force of annuitants who are allowed to work up to 60 days at a stretch, but who must then take 30 days off. They receive pension payments and an hourly wage and may rejoin the savings plan.

– General Electric Aircraft Engine Group has 25 to 30 annuitants on annual retainer, based on 50 to 100 days of work a year.

– Sun Company announced that it wanted annuitants for 200 temporary jobs and received 600 applications–10 percent of all its annuitants. Most of those hired work full eight-hour days.

– Bankers Life & Casualty Company has a pool of 35 annuitants on temporary or part-time basis, mainly doing clerical work.

– Each year, Morgan Guaranty Trust Company of New York retires about 70 employees and hires about 50 annuitants. They handle proxies and coupon bonds during peak periods and fill in during summer vacation. For performing these services they receive hourly wages and their pension payments, plus a few small benefits.

When the amount of Social Security earnings that is not reduced by earned income rises in 1981 from the present limit of $3,000 to a new limit of $6,000, phased retirement and callback from retirement will become even more attractive.

OUTSIDE THE FIRM

Second Careers and Small Business Opportunities

In recent years a few companies have begun to encourage older workers to embark on second careers and to provide assistance to those who do.

– IBM provides $2,500 in tuition aid for three years before retirement and two years afterward to help potential retirees (and their spouses) develop new interests and/or prepare them for second careers. In 1978 some 800 employees completed their studies in a wide variety of courses. The careers most frequently chosen were real estate and TV, radio, and motor repairs, but many retirees went into other kinds of small businesses.

– Aerospace Corporation in 1978 conducted a six-month program to encourage early retirement. Seventy-six people who met the age and service requirements received severance pay and bridging money to help them change direction. Although the oldest 39 retired, 9 took engineering jobs elsewhere at equal or better pay, 20 went into business for themselves, and the remainder chose new professional careers. A subsequent turnaround in business has compelled the corporation not only to drop plans for a renewal of the program but to hang on to present staff and even begin hiring annuitants.

– International Silver Company, beset by foreign competition, contemplated laying off a large number of workers, whose average age was 56. With federal and state government aid, the company converted its stainless steel flatware plant into three new businesses and retrained its employees as toolmakers. The layoffs were cancelled, and the company has begun hiring again.

– A few companies on the West Coast, including Lockheed, have engaged a specialist firm, New Career Opportunities (NCO), to teach retirees how to start small businesses. On the model of Junior Achievement, participants receive training in all the major functions essential to operating a firm. The success rate has been very high. NCO, originally a not-for-profit agency, is now seeking commissions to train employees *before* retirement.

recommendation 38

Employers should assist employees who want to start a second career or their own business. In many cases, it may be cheaper—and better for morale—for the firm to provide such assistance than to continue paying the salary of an employee who wants to leave. In addition, large companies may find that former employees can become useful small subcontractors and vendors.

Outplacement

recommendation 39

We recommend that, in dealing with surplus executives, more use be made of outplacement—assisting these executives to find suitable jobs with other employers. This is a successful and growing technique for recycling talent with the financial aid of the company.

The same techniques could and should be used with other occupational groups, since there is no inherent reason why the company owes more loyalty to one group than to another. Outplacement may also make it easier to terminate a failing work relationship, and thus remove one major source of anxiety in the hiring of older workers.

The process, carried out sometimes by in-house staff, perhaps more often by outside consultants, usually has two stages. First, a pretermination interview, in which the employee is given an opportunity to vent shock, anger, and frustration and is directed toward more rational consideration of alternative goals and aspirations. In the second stage, which continues until placement, the employee gets down to cases. Daily counseling sessions cover testing, the development of goals and resumes, listing of contacts, practice interviews, and analysis of actual interviews.

Many outplaced executives find new jobs that pay more than the ones they left. Two-thirds of placements are in jobs that did not exist before (bearing out the assertion that 80 percent to 90 percent of employment opportunities are never publicized). Employees over age 55 are, because of their high pay and status, the hardest to place—which brings us back to the starting point, hiring.

NOTES

1. David L. Birch, *The Job Generation Process* (Cambridge, Mass.: MIT Program on Neighborhood and Regional Change, 1979).

2. "Danish Survey Suggests Demotion for 'Obsolete' Managers; Finds Execs Prefer Lesser Jobs to Retirement," *World of Work Report,* November 1978, p. 92.

3. J. Roger O'Meara, *Retirement: Reward or Rejection* (New York: The Conference Board, 1977).

Part III

The Role of Unions and Government

10 / Unions and the Extension of Working Life

The trend toward extension of working life will have a major impact on union policies and practices. Unions, being membership organizations, are finely tuned to the needs and wishes of their constituents. Over the years, members have signaled that they want the unions to create more jobs and promotional opportunities for young people as they move older workers out of the work force onto pension rolls.

In order to induce older workers to leave, the unions have pressed for increasingly attractive pension rights and, in many cases, for mandatory retirement as well. It is likely, however, that members will become increasingly aware that these policies no longer coincide with their own best interests. As this happens, the unions will adjust their policies and negotiate suitable changes with employers.

Up to the present time, however, the unions have seen few, if any, signals requiring them to change. They fought long and hard to give workers a real choice between work and retirement by winning improvements of Social Security and private pensions. Now, in some industries, they have succeeded too well. The direction of pressures has been reversed. Workers covered by private pensions have been retiring at an earlier and earlier age —the great majority, in fact, well before the age of mandatory retirement. Often this has been made possible by establishing years of service, or a combination of service and age, as the criterion for entitlement to retire with full benefits. Whether this makes sense for workers depends on the situation of each industry. In the auto industry the policy of "30 and out" for assembly-line workers may be a justified response to the acute physical demands of the job. In steel or electronics, where conditions are much less rigorous, that response seems inappropriate. Yet the traditional competition among major unions impels Union B to match Union A's gains, whether relevant or not.

The trend toward earlier and earlier voluntary retirement has increased because of liberal Social Security benefits (particularly since they have been indexed), improvements in pension benefits, and the advent of Medicare. In high-benefit companies, older blue-collar workers often discover that they can make about as much after-tax income without working as by staying on the job.

In a specific instance, a 62-year-old male worker may see that after retirement his own and his wife's Social Security benefits will be tax-free; his pension payments will be free of Social Security tax and sometimes of state and local income taxes; he will no longer have to pay union dues or other deductions; he will pay a lower marginal rate of federal income tax on any remaining income; he will avoid the costs of working, such as transportation, lunches, special clothing, and so on; and lastly, he can look forward to the opportunity of working part time or casually, sometimes off the tax rolls. In this situation, the worker may well conclude that remaining longer on the job is economically irrational, even though, for noneconomic reasons, he might prefer to continue working.

Attitudes toward early retirement may be changed by (1) fear that Social Security benefits will begin to slip, (2) fear that continued inflation will eat up pension benefits even as the individual life span grows longer, (3) the possibility that Medicare benefits may fall behind those provided to active workers through company-paid health insurance, and (4) the continued health and vigor of workers and their need for social interaction. Attitudes today are fluid, but the trend is toward a reevaluation of retirement in the face of increasing uncertainty and economic risks.

recommendation 40

Union leadership should take current soundings of workers' attitudes toward retirement goals in the light of rapidly changing economic circumstances.

In low-wage, low-benefit industries, such as shoes and men's and ladies' garments, the tendency to retire earlier is much less pronounced. Workers in those trades have much less opportunity to build financial reserves, and their pensions, if any, are too small to support them. Their unions today are where their more fortunate brethren were five or ten years ago, struggling to obtain or improve pension rights to make early retirement feasible.

Some unionists are beginning to have second thoughts about the social value of early retirement. For example, where it is offered as compensation because a worker's job is no longer in existence, it may be better to provide transfers, either within the company or to other firms. In the basic steel industry, the so-called Rule 65 provides, in such a case, for transfer opportunities, new career ladders, relocation allowances, and retention of rates. Only if these routes do not lead to an alternative job can the worker elect early retirement. However, if workers are under the age of 62 at that time, they receive supplemental payments until Social Security takes effect.

In companies where the right to retire early does not depend on inability to find alternative employment, eligible workers actually compete for the opportunity, sometimes threatening the employer's ability to continue operating.

Some younger workers are questioning the policy of encouraging early retirement, as they find themselves in competition with a growing number of pensioners for the limited gains of collective bargaining. Pensioners have been demanding such items as:

- Higher pension levels in companies where pensions have not yet reached the levels of the major industries.
- Greater protection for established pension levels, that is, assurances concerning solvency of funds, vesting, and so on.
- Payment of Medicare premiums where active workers receive no-cost or low-cost health insurance. Employers may decide it is cheaper to elect national health insurance.
- The indexing of pension benefits, perhaps the most sensitive and costly item of all.

The competition between the claims of retired workers and the needs of younger workers will intensify when younger workers feel the impact of (1) higher Social Security taxes, and (2) higher health-care costs due to the rapidly growing proportion of retired persons in the population. Shortages of labor in particular enterprises, or shortages of skills, or shortages of entire occupations caused by the exodus of pensioners will become apparent to workers. Employers and unions will have to find ways of reducing these tensions. However, the recent UAW settlement in the auto industry showed current workers still prepared to accept a lesser wage increase in order to improve annuitants' benefits.

Conceivably, the erosion of pensions by inflation may stimulate union organizing efforts. If employees in nonunion firms ask for pension indexation and management feels unable to comply, they may be inclined to form unions to press the point.

At the same time, unions are becoming more reliant on pensioners for political action and organizing efforts. The United Mine Workers and the United Auto Workers already recognize the loyalty and claims of pensioners by granting them full membership in the union. Other unions will probably grant partial forms of membership. The *quid pro quo* for pensioners' service to the union—and for their growing political strength—is that the pensioners' voices will be heard.

Polls and surveys indicate that many older workers—perhaps a majority—say they would prefer to continue working beyond the normal retirement age. (Presumably, they mean they would like to work, provided their health allows and the conditions of the job are acceptable.) It appears also that many pensioners who volunteered to take early retirement did so under the mistaken impression that not to do so would violate written or unwritten rules.

As increasing numbers of older workers elect to continue working, unions will be asked to bargain for changes in working conditions. Interest in part-time work will surely grow, but its expansion faces many obstacles. Among these are seniority rules, pay scales (especially where retirement income approaches regular income), the blockage of promotions for younger workers, schooling problems, and fringe benefits. One approach to part-time work for older workers, without disrupting other arrangements, is the steel industry's 13-week vacation plan, under which the older half of the work force is entitled to one such vacation during each five-year period.

There may also be demands for retraining and job redesign. The needs and opportunities for job redesign will vary greatly from one industry to another. Modern technology tends to relieve much of the physical burden from jobs. Its major effect is rather to increase the responsibility attaching to the worker's job, replacing physical with mental or emotional strain. Blue-collar workers high on the promotion ladder are now required to make rapid decisions in situations where an error can have enormously costly consequences. Older employees sometimes seek relief from such jobs, even at financial sacrifice.

Lastly, when unions see that older workers want jobs more than they want pension benefits, they may turn attention to gearing the unemployment insurance system to the education system in order to help unemployed older workers.

Summary

- There is a time lag between the present behavior of unions and the trend toward an extended working life. Workers with fatiguing, boring, or stressful jobs want to get out early enough to enjoy a few years of relaxation; in high-benefit industries the combination of good pensions and indexed Social Security benefits allows them to do so. In less prosperous industries, unions are fighting for that option.
- The unions are committed to full employment, believe themselves obligated to distribute jobs, and see early retirement as the best form of work sharing. Unions' agendas will therefore continue to give priority to improved Social Security and more secure and earlier retirement rather than to provisions for extending work life.
- Tension is likely to develop as inflation and longer life sharpen the long-term implications of early retirement and even of normal retirement. Union workers, like salaried personnel, will develop an inflation-sensitive attitude. The result may well be a shift in priorities—away from retirement as financed today and toward improved pension benefits or extended working life.

11 / Greater Mobility for Older Workers

Older workers are the least mobile in the work force, usually because they are resistant to change and have ties to the community. In many cases, however, outside forces bar their movement. The principal barriers are (1) inability to find a job after leaving a previous one, whether voluntarily or otherwise, and (2) inability to acquire enough education to move to a better or different kind of job. It is in the interest of employers to remove these hurdles, not only in order to lessen counterproductive dissatisfaction in the work force, but to enlarge the pool of talent available to all.

Job Counseling, Development, and Placement of Reentering Workers

This report stresses the desirability for employers of retaining older workers who want to continue working and are capable of doing so. Many older workers, however, are out of work involuntarily, and would have to find their way back before retention would be relevant to them.

In September 1979 the Bureau of Labor Statistics reported the following statistics:

Among people aged 40-54 there were 770,000 unemployed (that is, individuals actively seeking work but not finding it)—333,000 men and 437,000 women. Among people aged 55 and older, 432,000 were unemployed—263,000 men and 169,000 women.

Government estimates of the number of older workers who are discouraged and therefore not actively seeking work are somewhat less reliable, but they suggest that about 500,000 people aged 40 and over are in this category.

In addition, in the Louis Harris 1979 survey, 46 percent of present retirees said they would prefer to be working, and 53 percent said they would have preferred to continue working rather than retire. Other, smaller polls tend to confirm this finding for ex-blue-collar as well as for ex-white-collar workers. Since there are almost 19 million retired persons in the United States, one may estimate that some 9 million of them are potential job seekers, either full time or part time.

Among unemployed, discouraged, and retired persons, there are an estimated 10 or 11 million older people who say they would take jobs if they could find suitable ones.

Suppose all these people made active efforts to return to the work force. Would they find the jobs they want? Even if the economy could provide that many jobs and employers all had age-neutral hiring policies, there would be serious problems due to the shortcomings of the job seekers themselves and to other circumstances beyond their control.

A variety of problems effectively shut these older people out of the job market.

Employees who have had long service with one or two employers immediately before becoming unemployed often have unrealistic expectations about their value to other employers. They do not realize that much of their present value consists of know-how acquired in and relevant to a particular employer.

Workers in their fifties who have had a single employer for a long time have probably enjoyed wage increases year after year. Once displaced, they must compete with younger workers at much lower earnings levels. They are effectively barred by seniority rules from entering new firms at levels comparable to the ones they left. These rules, which protected them in their original firms, now inhibit them when they try to enter new jobs. Competition is sharpened by the fact that older workers generally have had fewer years of schooling than younger ones. In fact, the number of years of school completed is closely related to labor-force participation at every age.

Perhaps even more serious, such persons either lack knowledge or have obsolete knowledge about the labor markets in which they must now compete. It has been a long time since they last undertook a job search. There is a good chance that, in finding their previous jobs, no active search was involved.

Reentering workers have a problem of morale, too. Extended unemployment following the end of the last job, whether the termination was voluntary or not, undermines confidence, and confidence is a key factor in the pursuit of a new job.

Many employees lack basic skills in a job search. They do not know how to define or present their qualifications, what kinds of employers could make use of their experience, or how to manage a job interview.

Overcoming these deficiencies requires a combination of information, advice and, often, group therapy. To supply these needs, a number of agencies have sprung up around the country with the mission of helping older workers, particularly those 65 and over, find jobs. Some are profit-making firms; some are independent, not-for-profit agencies, possibly receiving support under the Comprehensive Education and Training Act (CETA). Others are public, often operated by a prime sponsor.

recommendation 41

The role of CETA in retraining, counseling, and placing older workers should be expanded by making its help available to millions of potential workers, including pensioners, who are now excluded because they do not qualify under the economic limitations. The cost of serving them would probably be less than the cost of excluding them, because placing older people in jobs would bolster tax revenues, the Social Security fund, and the economy.

Unemployed workers between the ages of 40 and 65 usually have to choose between the U.S. Employment Service (USES) and fee-charging agencies. The latter are affordable by executives, but lower-level white- and blue-collar workers—except for craftsmen, perhaps—have nowhere to turn but USES, which is usually unable to serve them adequately.

Young Programs for Older Workers, the casebook which is a companion volume to this report, illustrates what can be done to help these job seekers.[1] The most intriguing program is the one directed by Job Search Workshops, Inc. (formerly Job Finders, Inc.), in San Mateo, California. Working with the area prime sponsor, this agency is designed to teach public service employees of all ages who are completing a year of CETA training how to find jobs. The placement rate for these graduates prior to the establishment of Job Search Workshops was 24 percent; within six weeks after completion of training at Job Search Workshops, the placement rate is 76 percent. For people aged 50 and over, the placement rate has been 95 percent, with high rates of retention. Job Search Workshops' clients have found their way into a wide variety of jobs, blue- and white-collar, often above entry level, and with attractive earnings.

Job Search Workshops does not place people; it trains them to place themselves by using many of the techniques normally used by professional placement agencies. Training consists of an intensive three-week workshop, of which the first week is training, including group therapy, and the last two are an actual but guided job search. Once clients succeed in placing themselves, they have learned enough to use self-placement again whenever needed.

Other agencies perform valuable placement services for older workers along more traditional lines. For example, Senior Personnel Employment Council (SPEC) of Westchester County, New York, is an independent nonprofit employment service for older workers, supported by donations from public and private sources. Established in 1955 and staffed entirely by older persons, it has placed over 7,000 older workers since then in all sorts of part-time temporary jobs. (Its current president is also president of The National Association of Older Worker Employment Services, comprising agencies in various parts of the country.) Recently, large corporations also have begun accepting SPEC placements because of the shortage of entry-level workers in Westchester County.

A similar agency in Palo Alto, California, called Retirement Jobs, Inc., expects to place 15,000 older workers (especially retirees) through its 18 offices in the Bay Area during 1979.

Another approach is that of Mature Temps, a private-enterprise subsidiary of Colonial Penn Life Insurance, which provides temporary help to firms in the same manner as Manpower, Inc., Kelly Girls, and so on. The difference is that all of Mature Temps' employees are 50 or older. In 1979 the company's 16 offices around the country provided 15,000 temps, mainly in clerical or secretarial jobs, but also in other junior white-collar positions at wages ranging from $3 to $8 per hour.

"Reentry workers," women who are trying to get back into the work force because they have finished raising a family or have lost their previous source of financial support, face special problems. Special programs for them are now available.

National Science Foundation, for example, has funded 21 programs in 13 states for over 1,000 women, to help them complete their schooling, update skills, and find new or better jobs. Twenty-seven percent of the participants were over 40. Of the 1,000, some 65 percent found employment; another 10 percent were in full-time graduate school; and 33 percent were working while attending school.

Over 28 states are operating displaced homemaker programs to help women who, through death, divorce, or abandonment, have lost their usual source of support. Women from their mid-thirties through their fifties are assisted, through a variety of services, to obtain training and/or placement in jobs, sometimes in programs that are not concerned with income status. The federal government recently instituted a displaced homemaker program administered jointly by the Women's Bureau and the Employment and Training Administration of the U.S. Labor Department with CETA funds.

Some notable programs are the New York State Displaced Homemaker Program, in western New York and in the counties in and around New York City; the Center for Continuing Education for Women, Valencia Community College, Orlando, Florida; Maryland Center for Displaced Homemakers in Baltimore; and Project Reentry of the Civic Center Clearing House of Boston.

These are a few examples among many. Nevertheless, the surface has barely been scratched for helping unemployed older workers find work.

Continuing Education as a Means to Mobility

The U.S. economy will undergo increasingly rapid changes during the coming years. Many new skills and occupations will come into demand while older skills may become redundant. Time and again we are warned that every worker must prepare to follow three, four, or five different careers in the course of his or her life. Large numbers of workers need retraining and/or reeducation in order to overcome technological obsolescence. And even in periods of economic recession, hundreds of thousands of skilled jobs cannot find takers.

Western European governments estimate that in order to maintain the skill base for an advanced industrial society, about 2 percent of the work force must be retrained annually. In the United States, 2 percent would comprise about 2 million of currently employed workers. Presumably, older workers would make up a commensurate share of that number.

On the supply side, large numbers of older workers are known to be desirous of changing their line of work. Some are stuck in declining industries. Some have become bored with their present job. Some are looking for jobs with better financial prospects. Some want to enter fields that have greater "social value." Some, usually women who have been out of work during the child-rearing years, are seeking to reenter. The key to such mobility is education, the acquisition of new skills.

It was noted in chapter 1 that older people have as much learning ability as younger people. What has been lacking is opportunity and motivation.

Our society has yet to draw the logical implications from these facts, especially for people aged 40 and over. To the extent that society as a whole benefits when continuing education increases the wealth-creating capacity of people, continuing education is a sound investment.

While overall comparisons are somewhat unreliable, it does appear that the United States has given less support for retraining and apprenticeships than the countries of Western Europe. This is rather surprising, in view of the demonstrated success of the G.I. Bill following World War II. Ironically, the G.I. Bill served to inspire the efforts of the Europeans.

The older worker who wants to gain mobility through education needs answers to several questions: (1) In which occupations is there most likely to be a continuing excess of demand over supply for skills which he or she has the ability to acquire? (2) Are the necessary educational facilities available? (3) How great is the financial sacrifice, and how much financial help is available?

The Bureau of Labor Statistics for some years has made fairly reliable long-range estimates of the supply of jobs in various occupations, but it has been unsuccessful in estimating how many people will seek those jobs. It is necessary to devise methods of determining how many older workers will be interested in working in particular occupations and the kinds of education or reeducation they might need.

One potentially fruitful approach is to look at the age distribution of the labor force within occupational groups. Such information, cast against a backdrop of socioeconomic factors that suggest behavioral patterns, can be of real help. For example, if we know that there is a trend toward greater female labor-force participation and we know that female workers in the 45-55 age group are located disproportionately in industries that account for a diminishing share of overall employment, it would be logical to assume that this group of women would have a high interest in retraining for work in growth sectors.

We must "map" the distribution by age groups of workers in a meaningful array of industries in order to know where there may be potential labor-force shortages or surpluses, thus indicating the potential for retraining and relocation. Little has been done to date in this area.

A recent study for the Andrus Gerontological Center, however, had several interesting findings. For example, three occupational groupings which had an increase in the proportion of 65 or older workers between 1950 and 1970 were: farm managers, farm workers, and private household workers. These same groupings formed decreasing proportions of the total employed work force between 1950 and 1970. In addition, their total rate of absolute growth either declined or was slower than that of the total work force. Hence, these occupational classifications, where older workers were an increasing proportion of the work force, were shrinking in terms of the occupation's proportion of the total work force.

recommendation 42

The federal government should sponsor detailed studies of age distributions by occupational grouping, with an evaluation of the educational levels of the workers. With such information, on a trend basis, there is a better possibility for determining the education and training needs for those older workers who want to prepare themselves for jobs in industries with increasing work opportunities.

For example, an occupation which has grown in relation to the overall labor force as well as to workers over 65, is that of sales. It would make move older workers from the farm and private household worker's groups to the sales workers' groups. Interestingly, the median years of school for farm workers is 8.9; for farm managers, 10.8; and for private household workers, 9.3. For sales workers, however, the median years of school is 12.7. If the higher median years of education is truly necessary for the sales worker, an educational program to equip farm workers and managers and private household workers for sales-force jobs is clearly indicated.

The utility of such studies would be even greater if they were supplemented by employers' short-term and long-term estimates of vacancies within their firms. In West European countries, these data are reported as a matter of course. The U.S. needs to consider some means—governmental or otherwise—of collecting and distributing vacancy information with minimal invasion of corporate privacy.

recommendation 43

Government and employers should help employees gain access to reliable advice about career opportunities and requirements, about where to get the necessary education to take advantage of these opportunities, and about their own readiness for education. Counseling services might be made available when workers apply for financial aid for education (as is done in Western Europe), whether the aid is sought from public or private sources.

recommendation 44

If a national program of continuing education is established, the current CETA program should be recast so that all public employment programs, other than the strictly countercyclical ones, would have a significant training and placement component. Special programs for retired people should also be included. Funding of CETA would then support educational efforts, some part of which could be conducted by the private sector. For example, the General Motors Institute could be given a contract to conduct training programs throughout the United States, accepting students whose fees would be covered by the program. Such organizations as Operations Industrialization Centers of America (OIC), a community-based agency that trains the disadvantaged for industrial jobs in many urban areas, could be expanded many times over, since their excellent efforts in the past have constantly wanted for student support. Other, more general kinds of education should also be available.

The public community colleges and vocational schools would be major beneficiaries of the program. Expansion of these centers would no longer be solely dependent on restrictive annual budgets, since the program would create a continuing market for their courses. The same would be true for universities, public and private. In addition, new private vocational and educational programs would emerge.

Since the money would follow the student, any educational or training program dealing with student needs would benefit.

The cost to the older worker has two components: (1) out-of-pocket payments for instruction and materials; (2) earnings forgone because the course of instruction leaves too little time or energy for other employment. Ability to meet these costs varies greatly from one individual to another, depending on: whether the individual is currently employed, the level of earnings, the level of other income and family or other commitments, whether the spouse is employed, whether it is a multiworker family, and so on.

In the postwar period, West Germany has led the way in making massive social investments in the skills of its people. According to a 1978 West German publication entitled *Labor News and Social Policy,* "In Germany today, human skills and mobility are regarded as the most important factors in economic growth, more important even than capital."

Beginning in 1964, West Germany has provided up to two years of full-time training or retraining as a right to every adult, whether employed or unemployed. Government pays all training costs, plus an income subsidy which can be as high as 90 percent of the previous wage.

The income subsidy varies inversely with the last wage. Thus, a low-wage employee loses little income in upgrading his or her skills and increasing productivity. Since a higher-paid worker will lose proportionately more in income, there are no frivolous decisions to leave a job. The psychology works. Most people want to make more money rather than less. If they are given help to achieve this goal, they will do so. Those needing the most help, but with the most to gain, are the low-paid workers. Hence, they are subsidized the most. But the economy gains the most by their becoming higher-skilled workers. Moving allowances and short-term rental allowances to encourage moving to where the good jobs are located are all included.

As a result of the West German experience, the French adopted a similar approach in 1971, as did Britain in 1975. Some differences are noticeable: the British approach has a lower age limit of 19, thus permitting its apprenticeship system to operate until that age. In West Germany and France much of the training is done through the private sector, whereas in Britain almost all is done through the public sector, with a strong reliance on technical colleges and government training centers.

It is important to distinguish between the CETA and the European training experiences. In Europe, training is not income-limited; it is available whether or not trainees are employed. This relates especially to middle-aged workers. By comparison, in many states in the United States, one cannot be retrained and also receive unemployment insurance benefits. Also, we are targeting ever more closely to low income in the United States. The importance of the European experience is that it is a broad approach to training and retraining as a societal investment, without limitation by income or employment status. The European experience suggests that in the United States these training opportunities should be available to people of all ages and incomes—which is *not* to say that *all* targeting under CETA should be abandoned.

In chapter 9, under "Work-Education Combinations," other supplementary alternatives for financing educational costs are outlined: loans against a company's thrift and savings plan, loans against future pension benefits, and the application of unemployment-insurance benefits to educational purposes.

recommendation 45

We recommend that the appropriate congressional committees review the West European experience with large-scale training as a social investment. Congress should consider providing a sufficient period of full-time or part-time training and education to all individuals who can meet appropriate qualifications, except workers who cannot be reeducated for a desired change of employment without undue time and expense. The congressional review should be carried out in the light of CETA training efforts, and indeed might be included in any reconsideration or renewal of CETA in 1981.

Summary

- The mobility of older workers is severely hampered by the inefficiency of the labor market and the difficulty of acquiring new skills. Increasing the mobility of these workers would enlarge the talent pool available to all employers.
- Millions of older workers, presently out of the labor force, say they would like to work if they could find suitable full-time or part-time jobs. Even if the jobs existed and there were no discrimination, many could not be hired because of deficiencies in coping with the labor market. They need job counseling and help in locating and landing a job. A growing number of public and private agencies are trying to meet the need, but the surface has barely been scratched.
- As the economy evolves, new skills come into demand, old ones lose their market value, and technological obsolescence becomes a widespread threat. At the same time, many older workers want to change their occupations for a variety of reasons. Healthy older workers have as much learning ability as younger ones, but they lack (1) advice about choosing a field of study, (2) advice about choosing an educational institution, and (3) financial assistance while they are full-time students. Information about the demand for particular job skills is thin and unreliable. Many educational institutions would become active in providing skills if they had a more assured market. Far more frequently than the United States, Western European nations treat training as a social investment.

NOTES

1. Beverly Jacobson, *Young Programs for Older Workers,* Van Nostrand Reinhold/Work in America Institute Series (New York: Van Nostrand Reinhold, 1980).

ABOUT WORK IN AMERICA INSTITUTE

A nonprofit organization, the Work in America Institute was founded in 1975 to advance productivity and the quality of working life, thus contributing to the economic and social well-being of the nation. Its mission is based on two fundamental convictions: that the human factor in the work equation becomes more critical as our society grows more complex, and that people and production can be linked in new ways to enhance worker satisfaction, while at the same time improving the effectiveness of the organization. Drawing from a broad base of support in all sectors of the work community, the Institute acts as a clearinghouse for information and as a source of assistance for all concerned with the world of work.